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IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

PART II

SACRAMENTO, CALIF., JANUARY 18, 1982
SEATTLE, WASH., JANUARY 19, 1982

Serial 97–48

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IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

MONDAY, JANUARY 18, 1982

House of Representatives,
Committee on Ways and Means,
Sacramento, Calif.

The committee met at 9 a.m., pursuant to notice, in room 4203, State Capitol Building, Sacramento, Calif., Hon. Dan Rostenkowski (chairman of the committee) presiding.

[Material pertinent to the Sacramento hearing follows:]

[Press Release of Thursday, Jan. 7, 1982]

Hon. Dan. Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, Announces Additional Details on the January 18, 1982, Field Hearing on the Impact of the Administration's Budget Cuts

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, announced today additional details on the Committee's field hearing in Sacramento, California (as previously announced in press release No. 14). The hearing will be held on Monday, January 18, 1982, in Room 4203 of the State Capitol, beginning at 9:00 a.m.

The committee has invited witnesses to address the impact of the recently enacted policy changes and budget cuts on (1) the fiscal and administrative capacities of State and local government, (2) the effectiveness of the affected programs under Ways and Means jurisdiction (Aid to Families With Dependent Children, Title XX Social Services, Supplemental Security Income, Medicare), and (3) the lives of the people that the programs were intended to serve. The committee is also concerned about the effect of the recently enacted Economic Recovery Tax Act of 1981 on State and local government revenues.

The hearing will commence with testimony from the Honorable Edmund G. Brown, Jr., Governor of the State of California. He will be followed by other State officials who have been invited to testify. The Honorable Phil Eisenberg, Mayor of Sacramento, several county supervisors from different areas of the State, and other invited local government officials will testify on the impact of the recent budget cuts and tax changes on local governments in California. Dennis B. Hart, Sacramento County Welfare Director, will lead a panel of social workers, Title XX social services recipients, and AFDC recipients who will address the effects on individuals of recent policy changes and funding reductions and the administration of these welfare programs. Individuals have been invited to speak for the business community, voluntary organizations and educational institutions in the State. Donald Kennedy, President of Stanford University, will be among these witnesses. Additional information regarding the Committee's itinerary and the witnesses invited to testify at the hearing will be announced as soon as possible.

BACKGROUND INFORMATION PREPARED FOR THE SACRAMENTO HEARING

ON THE IMPACT OF CHANGES AND BUDGET CUTS IN PROGRAMS UNDER THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

ITINERARY
and
Tentative Witness List

Sunday, January 17, 1982	
7:00 p.m.	Dinner hosted by Governor Brown for Members at D.O. Mills in Old Sacramento
Monday, January 18, 1982	
7:50 a.m.	Bus departs Capitol Plaza Holiday Inn for State Capitol (For those leaving town Monday evening, please check out of the hotel in the morning and take your luggage to Room 3222 by 7:40 a.m. The bus will return to the hotel at the end of the day, after the last site visit.)
8:00 - 9:00 a.m.	Coffee hosted by Mr. Matsui, State Assembly Library Foyer, 4th Floor
9:00 a.m.	Hearing begins, Room 4203, State Capitol (Senate Side)
WITNESSES:	***
9:00 - 9:30 a.m.	Governor Edmund G. Brown
	***
9:30 - 10:00 a.m.	State Government Panel: Lt. Governor Mike Curb Ken Cory, State Comptroller
	***
10:00 - 11:00 a.m.	Local Government Panel: Mayor Phil Isenberg, Sacramento Supervisor Peter F. Schabarum, Los Angeles County Supervisor Arlen Gregorio, San Mateo County Librado Perez, Social Services Director, Alameda County David C. Aroner, Executive Director Social Services Union Local 535
	***

11:00 - 12:00 p.m.	Sacramento County Administrators, Social Workers and Recipient Panel: Dennis Hart, County Welfare Director Madalyn Craviotto, Social Worker Warene McGhee, Foster Parent Jane McCluskey, Social Worker Towne Domino, In-Home Supportive Services Recipient Clariza Chaveste, Social Worker Janelle Doolittle, AFDC Recipient Penelope Lerma, AFDC Recipient ***
12:00 - 12:45 p.m.	Private Sector Panel: Response of Universities, Business and Voluntary Organizations Donald Kennedy, President, Stanford University Arthur B. Laffer, Professor of Business Economics, University of Southern California Oscar Wright, President, Alliance of Black Conservatives Don Gevirtz, Chairman, Foothill Group, Inc. Louis N. Garcia, Executive Director, United Way of California ***
12:45 p.m.	Hearing Ends
1:00 - 1:45 p.m.	Lunch hosted by California State Legislature, Basement Cafe, State Capitol
1:45 - 2:00 p.m.	Senator David Roberti, President Pro Tempore of the California State Senate, will introduce visiting Ways and Means Members on the Senate Floor
2:15 -	Bus departs State Capitol for site visits
2:30 - 3:15 p.m.	Visit to Camellia City Center, 1121 Ninth Street
3:30 - 4:30 p.m.	Visit to Sacramento Childrens Home, 2750 Sutterville Road
4:30 p.m.	Bus with Members going on to Seattle and Special Services station wagon with luggage will proceed to Sacramento Airport. Members not going to Seattle will be returned to the Holiday Inn.
6:30 - 8:05 p.m.	United Airlines Flight #310 - Seattle

II. PROFILES

A. STATE OF CALIFORNIA

California, with an area of 158,683 square miles, is the second largest state in the conterminous United States. However, it is the most populus, with the 1980 census report showing a population of nearly 24 million. With an 18.6% increase in population since 1970, it is one of the faster growing states.

The economic base in California is diversified, with the largest industry being agriculture. California is the leading state in the nation in the production of agricultural products. In 1980 almost $13.7 billion was received by state farmers for their agricultural products. Main products include cotton, grapes, hay, almonds and rice as well as cattle and eggs. Forestry and fishing are also important industries in California.

California is also a leading producer of energy, with oil, coal and natural gas as leading products. The manufacturing industry is the fastest growing sector of the California economy. The manufacturing of instruments, non-electrical machinery and electronic equipment lead the way. Aerospace and food processing are other important industries.

Per capita income in California in 1980 was $10,018. Unemployment for December 1981 was 8.9% statewide; however, there are large areas of California where the unemployment rates are much higher. Particularly hard hit are the mountain counties of northern California where the logging industry has been adversely affected by current economic conditions. In Sierra County, for example, unemployment is 21.4% and in Sutter County 20.3% -- both logging counties. There is also a great deal of seasonal unemployment related to the agricultural industry; for example, in Imperial County unemployment for December 1981 was 25.3%.

Total state revenues for the year ending June 30, 1980, amounted to $20,293,000 with expenditures being $21,752,000. Total federal dollars flowing into California for fiscal year 1981 are estimated to be in excess of $11 billion.

B. COUNTY OF SACRAMENTO*

Sacramento County is a rapidly growing county with a population of 783,380 (1980), an increase of nearly 150,000 over 1970. Sacramento County has changed from an essentially rural to a largely urban area over the last 25 years. Within the County of Sacramento is the City of Sacramento which serves as the State Capitol. With approximately 33 percent of the area's work force employed in federal, state and local agencies, government is this area's major industry and forms its economic base. Although economic development programs and activities have been implemented in an effort to broaden the area's economic base to include manufacturing, this expansion has been gradual and is contingent upon favorable economic considerations.

Since passage of Proposition XIII in 1978, Sacramento County has experienced continual reductions in revenues available to fund the services it provides. Although several actions were taken to reduce expenditures and operate as cost-effectively as possible, the rate of inflation and increased need for services has out paced any expenditure reductions. In addition to the reduced property tax revenues, Sacramento County's ability to raise revenues through taxation is severely limited by law. The reduced revenues and limited capability of Sacramento County to increase revenues has severely curtailed its ability to provide local funding to provide necessary services. Federal and State revenues, therefore, have become increasingly more significant. County revenues for Fiscal Year 1981-82 include approximately $133.3 million from federal sources and approximately $137.1 million from the State of California. Federal revenues account for approximately 31% of total county revenues.

Even with extensive federal assistance, Sacramento County faces an operating deficit in certain funds. In an effort to reduce this deficit, Sacramento County has reduced its work force and issued lay-off notices; placed a hiring freeze on certain departments; and cancelled or deferred fixed asset purchases and other expenditures to the extent practicable. The State of California no longer has a surplus with which to help local agencies and is facing severe financial difficulty itself.

---

*Furnished by Office of the County Executive, Sacramento County

Effects of Reductions in Federal Funding

In 1980-81 the Sacramento County area received $30,000,000 in Comprehensive Employment and Training Act (CETA) grants. With the midyear cuts proposed by the Reagan Administration, the amount available was reduced to $12,000,000. This reduction affected programs to provide basic skills training for the persons designatd as "hardcore unemployed" with the result that many of these persons will continue to receive some form of public assistance or General Assistance and will remain a direct financial burden on various levels of government rather than becoming self-supporting in unsubsidized jobs.

Other federal funding includes approximately $107.6 million for health and welfare programs of which 75 percent is assistance payments for children's programs and $21.8 million for miscellaneous programs including General Revenue Sharing, public protection and various public works projects. In addition, millions of federal dollars flow to cities in the incorporated areas of Sacramento County, schools, various nonprofit organizations, and individual benefits to residents in the form of salaries and retirement benefits. The location of two military bases in the Sacramento area, McClellan and Mather, has contributed significantly to the number of residents who receive wages and retirement benefits from the federal government.

With the implementation of hiring freezes at the federal and state levels pending the outcome of congressional action on the Reagan Administration's new economic program, government employment is at a virtual standstill. Any reduction in governmental funding will have a profound effect not only on the government employees involved but upon suppliers of goods and services as well. Potential decreases in sales will result in reduced sales tax revenues for governmental agencies, thereby reducing government's ability to provide necessary services.

Designated federal reductions in welfare will affect one-sixth of Sacramento County's AFDC caseload and will result in approximately 2,000 families being terminated and 3,000 families receiving reduced aid payments. Reduction in federal aid could be short-sighted in that services to help families to become independent will be eliminated, thereby fostering dependence on public funds.

Since services at the local level include funding from various levels of government and many programs are interdependent to some degree, it is imperative that the consequences of actions at one governmental level--particularly the federal--be carefully evaluated with respect to its effect on other governmental entities and the population they serve.

. C. PROFILE OF WITNESSES

Panel on Budget Cuts on Recipients, Social Workers and Administration of Welfare Programs in Sacramento County

Dennis B. Hart, Director, Department of Social Welfare, Sacramento County.

***

Madalyn Craviotto, Social Worker.

As an eligibility worker for 9 years and a social worker for 3 years, Ms. Craviotto currently works with adult protective services.

***

Warene McGhee, Foster Parent.

As a foster parent for 29 years, Ms. McGhee has cared for approximately 40 different children. She has eight children of her own, has adopted two children and is the legal guardian of four others. She is president of the California State Foster Parent's Association.

***

Jane McCluskey, Social Worker.

Ms. McCluskey has been a foster care placement worker for 10 years. In addition she has worked as a volunteer in the Parent Support Program and helped start parenting classes for clients in conjunction with the Red Cross.

***

Towne Domino, In-Home Supportive Services Recipient.

Mrs. Domino is 32 years old. She is legally blind and has asthma and heart problems. She has received "In-Home Supportive Services," making it possible for her to live at home, since 1976. Because of recent budget cuts, she has been reduced from 59 hours of services per month to 12 hours per month.

***

Clariza Chaveste, Social Worker.

Ms. Chaveste was an eligibility worker and then a social worker providing In-Home Supportive Services. She was recently demoted to eligibility worker because of budget cuts.

***

Janelle Doolittle, AFDC Recipient.

Ms. Doolittle has two children, ages one and two, works part-time and receives gross wages of $370 per month. She has child care expenses of about $200 per month. Because of changes in the AFDC earnings disregards enacted in the Budget Act, her AFDC grant will be reduced from $419 a month to $237. She has concluded that she will have more money to buy food and clothing for her children if she quits working and goes completely on welfare.

***

Penelope Lerma, AFDC Recipient.

Ms. Lerma has two children, works and receives gross wages of $770 per month. Her monthly work expenses are $240 for child care, $66 for transportation, and $123 for taxes. As a result, she has net earnings of $341 per month. Prior to the changes contained in the Budget Act, she was eligible for an AFDC payment of $478 a month. After the changes are implemented, she will lose AFDC eligibility because her gross earnings exceed 150 percent of the state standard of need.

***

Private Sector Panel: Response of Universities, Business and Voluntary Organizations

Donald Kennedy, President, Stanford University.

Donald C. Kennedy is currently serving his second year as President of Stanford University. He came to Stanford as an assistant professor in 1960, served as Chairman of the Department of Biological Sciences from 1965-72 and was vice-president of the university from 1979-80. From 1977-1979, Dr. Kennedy was Commissioner of the Food and Drug Administration.

Stanford University is a private university located 40 miles south of San Francisco. The University currently has an enrollment of 6,000 undergraduate and 6,000 graduate students, and a faculty staff of 1,300. Stanford has a graduate business school, law school, and medical school of national prominence.

***

Arthur B. Laffer, Professor of Business Economics, University of Southern California.

Arthur B. Laffer is currently the Charles B. Thorton Professor of Business Economics at the University of Southern California. He is also a member of the Economic Policy Advisory Board to the President of the United States.

Mr. Laffer's educational background includes the following: B.A., Economics, Yale '63; M.B.A., Stanford University '65; and Ph.D., Economics, Stanford University '72.

***

Don L. Gevirtz, Chairman of the Board and Chief Executive Officer of the Foothill Group, Inc.

The Foothill Group, Inc., is a commercial finance company which specializes in making loans to small businesses that are unable to obtain conventional financing. The group is currently lending funds to more than 7,000 companies nationwide. Over the last eight years, outstanding loans and leases have grown from $2 million to over $200 million.

Mr. Gevirtz served on the White House Conference on Small Business (Capital Formation section) in 1980. He currently serves on Governor Brown's "California Commission on Industrial Innovation" established to produce a blueprint for California's high technology future.

***

Louis N. Garcia, Executive Director, The United Way of California

The United Way of California is the umbrella organization for the 40 United Ways in the State. The United Way of California hopes to raise $150 million in 1982. Approximately 21% of the funds will be used to fund family service programs, 24% for youth and social development programs, 22% for health and the remaining funds for a mix of community, public recreation and day care programs. Due to reductions in federal funds for 1982, the United Way organization expects to put increased emphasis on employment training, health, and emergency assistance programs.

Mr. Garcia is the current Executive Director of the California United Way. Formerly, he was Assistant Director of the League of California Cities, and Assistant City Manager of several California cities.

***

Oscar Wright, President, Alliance of Black Conservatives.

Mr. Wright, a Los Angeles resident for 25 years, currently serves as President of the Alliance of Black Conservatives. He graduated from California State University in 1975, is a former counsellor and Big Brother of Westminister Creative Child Redevelopment Center, is a former President of the Youth Council of the "Council of Community" Clubs and is a Sales Manager of Hoechst Pharmaceutical Company. Mr. Wright is also a member of the Mount Pleasant Baptist Church in Los Angeles.

***

D. SITE VISITS

1. Camellia City Center

Camellia City Center was established six years ago and serves the elderly poor of downtown Sacramento. Most are elderly single men who live in the business district hotels. The Center's uniqueness is in the success of the program for this special group of elderly who are not served by the traditional services. The Center functions as the primary source of social and emotional support for many who have no family or social ties in the community.

During the first year of operation, the Center served an average of 40 persons per day with the assistance of volunteers and interested citizens. The average daily attendance in 1980-81 was 250. Services are provided by professional and paraprofessional staff with the assistance of volunteers and students.

Downtown Sacramento is the area with the highest number and concentration of the poorest elderly. The 1975 Special Census shows that 54 percent of the elderly in the County live within the City of Sacramento. Of 7,672 persons 60 and older living in downtown, 40 percent live on incomes below $6,000 per year. A majority of Center participants live in the business district hotels within walking distance of the Center. Ninety-three (93) percent of the participants are men, and 30 percent are non-white (Hispanic, Black, Asian, and Indian). A number of participants do not speak English.

The Center is in operation six days a week, including all holidays, from 8:00 a.m. to 4:00 p.m. The specific services of the Center include:

-- Low cost meals for breakfast and lunch/snack

-- Recreation programs and opportunities for socialization

-- Health screening and education

-- Counseling and social services for individuals and groups

-- Transportation services for medical appointments and shopping

-- Outreach program to seek out older homebound persons who need services.

The Center is funded by a variety of sources including: City Community Services, County General Revenue Sharing, Area 4 Agency on Aging (Older Americans Act funds), CETA, Senior Community Service Employment Program (senior employment), private contributions and service fees.

By way of example, during the 1980-81 fiscal year, the Center's CETA employees were eliminated. As a result, the Center was forced to lay off one Office Clerical worker and four Human Service Outreach workers. This federal action almost wiped out the most critical function of the Center: to locate, identify, and help our downtown elderly lonely shut-in. The effect of this seemingly small reduction in federal support was immense:

-- Camellia City Center was without a clerical worker.

-- Outreach to some 450 lonely shut-ins ceased each year.

-- Advocacy, except for extreme cases, ceased functioning.

-- Information and Referral was severely curtailed.

-- Rap sessions were severely curtailed.

-- Center had to change from seven-day operation to six days because of reduced staff.

Center workers are concerned that reductions in Sacramento County and City budgets will generate additional funding cuts. They have already been instructed to submit a curtailed budget to the City of Sacramento and are threatened with a $5,000 budget reduction from the county for this fiscal year.

FUNDING:

Source	Amount			
	FY 78	FY 79	FY 80	FY 81[a]
City General Fund	7,650	40,550	55,000	53,817
County General Fund	69,807	51,000	48,502	48,502
OAA AHAA, Transportation Project[b]	16,500	15,430	23,746	26,623
United Way (Special Contribution)		10,000		
CETA & OAA, Title IX SCSEP[c]	57,680	83,772	45,438	20,000[d]
Contributions for Food Program and Donations	44,320	29,773	41,781	----
	195,957	230,525	214,467	148,942

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[a] Fiscal years run from July 1 to June 31.

[b] Older Americans Act funds handled by Area 4 Agency on Aging.

[c] Older Americans Act funds, Senior Community Service Employment Program.

[d] No CETA monies received.

ii. Sacramento Childrens Home

The Sacramento Childrens Home is a non-profit, charitable corporation that has been serving children since 1867. The home currently serves 90 children who require more extensive care and supervision than a typical foster family home setting can provide. Children are generally placed in the home by county welfare or probation departments or by order of the court. Most children at the home come from Sacramento County and are victims of neglect, abuse, abandonment or serious family conflict.

Children from infancy through college age are referred to the home. One staff member coordinates the overall plan for each child. The program is geared towards helping the child to adjust in a positive manner and, hopefully, to return home to his family. If that is not possible and adoption is not feasible, then an attempt is made to place the child in a permanent foster home. Children unable to adapt themselves to the public school setting attend special classes on the home grounds within the framework of the state's Learning Handicapped Program.

The home includes a 17-acre residential treatment center and four group homes. The group homes, located throughout the Sacramento area, are used for those who need a continued period of training and treatment but who no longer require the intensive care in the home. Ten to twelve children of mixed age and sex live in each cottage under the supervision of trained child care staff.

The annual operating expenditures of the Sacramento Childrens Home exceed $2 million. The Board of Directors and volunteer support groups provide 28 percent of the operating resources as well as funds for capital improvements and renovation. In addition, the physical plant and land are valued in excess of $5 million, generated solely from charitable sources. During 1980-81, voluntary support for the Childrens Home exceeded $560,000. More than 600 volunteers work on behalf of the home.

The remaining 72 percent of operating funds comes from government sources. At the federal level, Title IV-E of the Social Security Act pays for one-half of the monthly cost of care for an AFDC eligible child in foster care. State general fund revenues pay for 47.5 percent and county property tax revenues pay for the remainder.

While the Sacramento Childrens Home hopes to increase its private support, any further federal reductions in AFDC Foster Care and Title XX (Social Services) will force the home to reduce the number of children it can serve. In fact, further federal cuts will have a direct negative impact on all 28,000 California children in foster care as well as California's attempt to reduce the number of children in foster care. Title XX, while it does not directly pay for the cost of care, does provide funding for the review of children in foster care and for the response to reports of abuse and neglect.

Sacramento Childrens Home

Program Expenditures
1980-1981

Salaries and Benefits	$1,475,475	(71%)
Supplies	169,564	(8%)
Food Recreation Housekeeping Office Medicaid		
Occupancy Costs	160,577	(8%)
Rent Insurance Utilities Taxes and Interest Equipment		
Assistance	121,394	(6%)
Children's Board (Foster Home and home visits) Living expenses Clothing Transportation Recreation		
Professional Fees	77,000	(4%)
Doctors Audit and Investment		
Travel	40,898	(2%)
Gas, Repairs, Insurance		
Other	22,135	(1%)
TOTAL	$2,067,043	(99%)

*72% provided by Government funds
*28% provided by private sources

III
THE IMPACT OF THE FEDERAL BUDGET CUTS ON CALIFORNIA

AN OVERVIEW*

The Omnibus Budget Reconciliation Act of 1981 will have a substantial impact on the people of California and their state and local governments. During the 1981-82 fiscal year, California will feel the impact of the reduction of over $1 billion of federal funds. Although California will probably benefit from increases in defense spending and the federal tax cuts, it should be noted that these benefits will not be felt until the 1982-83 fiscal year and beyond. Some of the federal budget cuts are described below with an indication what the effect on California may be.

A. HUMAN SERVICES PROGRAMS

i. Social Services--The Social Services Block Grant combines the funding for social services and social services staff training. Funding is reduced by 20 percent. Programs currently funded by Title XX include community placement for adults and children; day care; services for neglected, abused and delinquent children and similar programs. States may transfer up to 10 percent of the block funds to other human services block grants. The states' flexibility in this program is limited because a reduction in many of the currently funded programs will result in increased expenditures in other areas, such as foster care homes or institutions.

In California, these cuts will be particularly devastating in rural and small counties. Major services affected will be foster care and in-home supportive services, where burdens may simply shift to other state and local programs. The 20 percent federal funding reductions will result in a loss to the state of $59.8 million. This is a reduction of approximately 21.6% of the amount necessary to maintain services as projected in the state's plan. The Social Services Department has been enable to mitigate the funding shortfall from $58 million to $40 million by transferring $18 million from the Title IV B (Child Welfare Services), Low Income Energy Assistance Program and Title XX staff development funds. The net effect is a reduction to In-Home Supportive Services Program of $26 million and $14 million to other county social services.

ii. Aid to Families with Dependent Children (AFDC)--Aid to Families with Dependent Children provides cash welfare payments for needy children (and their mothers or caretaker relatives) who have been deprived of parental support of care because:

--their fathers are absent from home continuously,
or --their mothers are incapacitated, absent or dead.

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*Summarized from data supplied by the Legislative Analyst, California State Legislature. Material prepared for a series of hearings held Oct. 26-30, 1981.

States define "need", set their own benefit levels, establish, within federal limitations, income and resource limits and administer the program. State payment for AFDC families of three ranged in July, 81 from $96 in Mississippi to $506 in California. All AFDC families are automatically eligible for medicaid and most have income within the limits of the food stamp program. The Federal government pays at least 50 percent of each state's benefit payments.

Many of the reductions in the Budget Reconciliation Act deal with incentives to work: a client's deductible work expenses are reduced, allowable resources are reduced from $2,000 to $1,000, benefits for college students are reduced, strikers' benefits are eliminated and benefits to unborn children are withheld until the mother's sixth month of pregnancy. It is expected that these cuts will cause increased expenditures in the General Assistance and Emergency Assistance programs and will lengthen the period of time that AFDC recipients remain on public assistance.

In California, 42,000 families will be eliminated from AFDC and another 100,000 will face cuts in payments, unless the state assumes full funding responsibility.

THE IMPACT OF AFDC CHANGES IN CALIFORNIA CASELOAD

(by specific amendment)

1. Limitation on Earnings Disregard: 9, 789 cases ineligible.
   54,223 cases reduced grants.
2. Income Limit for AFDC Eligibility: 21,894 cases ineligible.
3. Determination of Resources: Unknown (partial state implementation).
4. Assumption of the Earned Income Tax Credit (EITC) Advance Amount Under AFDC: Unknown (implementation began November 10).
5. Income of Stepparents Living With Dependent Child: 5,720 cases ineligible. 7,088 cases reduced grants.
6. Work Registration Requirement: Unknown (not implemented).
7. Age Limit of Dependent Child: 768 cases ineligible.
   1,057 cases reduced grants.
8. Limitation on AFDC for Pregnant Women: 23, cases reduced grants.
9. Eliminates Payments of Aid in Amounts Below $10: Negligible impact.
10. (a) Retrospective Accounting: 5,940 cases reduced grants.
    (b) Monthly Reporting: No caseload impact (administrative impact only).

SEE SECTION VI B for a description of the AFDC program and changes in the FY 82 budget.

Examples of Budget Reductions in AFDC are as follows:

AFDC Impact of Earnings Disregard Changes

For a family of 3 (mother and 2 children) in California, the maximum AFDC payment is $506 per month. This family of three loses eligibility for any AFDC assistance when earnings exceed $759/month (150% of State standard of need). With no earnings, this family will receive $506 in AFDC benefits plus $91 in Food Stamps for a total net income of $597 per month. The budget reductions did not affect this family with no earnings. These examples assume the maximum shelter deductions under the Food Stamp program. In addition, the $75 AFDC work expense deduction is not provided for examples 1 and 2. The three examples below illustrate how net income changes as earnings increase under prior and current law.

Example 1: $200 in monthly earnings, EITC of $20, $100 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$479	$474	$428
Food Stamps	47	47	60
Net Earnings (includes EITC)	120	120	120
Total Net Income	646	641	608

Example 2: $300 in monthly earnings, EITC of $30, $150 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$456	$423	$351
Food Stamps	27	35	57
Net Earnings (includes EITC)	180	180	180
Total Net Income	663	638	588**

Example 3: $581 in monthly earnings (full-time minimum wage job), EITC of $32, $300 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$417	$274	$128
Food Stamps	0	0	0
Net Earnings (includes EITC)	313	313	313
Total Net Income	730	587**	441**

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*Earnings exceed 150% of "State standard of need". Possibly loses medicaid.

**Less income than the same family with no wage income.

CALIFORNIA AFDC PROGRAM SUMMARY

Recipients (as of December 1980):

Number of Families	511,486
Individuals	1,498,216
Children	996,054 (66%)
AFDC-UP Families	58,976 (11.5%)
Average Family Size	2.9 members
Percent employed	17.9% (1979)

Monthly Benefits for a Family of Three (as of December 1981):

State "Standard of Need"	$506.00
Maximum amount paid	506.00
Percent of "need" paid	100%

Maximum monthly earnings at which a family of three loses eligibility for AFDC under provisions contained in 1981 Budget Reconciliation Act. (150 percent of State "Standard of Need")....................................$759.00

Maximim monthly earnings at which a family of three lost eligibility for AFDC, prior to 1981 Budget Reconciliation Act (assuming work expenses equal 20 percent of earnings and child care expenses of $150 per month). $1,450.00

Program Options (as of October 1, 1980):

1.	Benefits for unemployed parents	YES
*2.	Benefits for unborn child	YES
*3.	Benefits for youngsters over 17 who are in school	YES
4.	Emergency assistance	NO
5.	Local government shares in AFDC costs	YES

Expenditures (preliminary Fiscal 1980 estimates):

Total	$2,154,766,533
Federal share	1,077,383,269
Percent paid by Federal	50%

*Program options repealed or restricted by 1981 Budget Reconciliation Act.

iii. Food Stamps--The number of persons eligible for food stamps is reduced under the Budget Reconciliation Act. Families earning more than 130 percent of the poverty level will now be ineligible to receive stamps. Other restrictions also reduce eligibility -- adjustments for inflation are delayed, strikers are excluded, household income is redefined and earned income deduction levels are reduced. As a result, California residents will receive $40.5 million less in food stamp dollars. 16,500 California families just above the poverty line will lose food stamp eligibility.

iv. Health--The Budget Reconciliation Act established four block grants involving health programs.

The Primary Care Block is intended to support the development and operation of community health centers which provide primary health services designed to improve the availability, accessibility and organization of health care within medically underserved communities. This program is funded directly by the federal government to local community health centers and is not effective until FY 1983. In FY 1982 the categorical CHC program continues, and $2.5 million for planning grants is available to states. In FY 1983 and FY 1984, for states not opting to accept block grant funds (the requirements under the block are stringent,) HHS must continue to operate the categorical CHC program.

The Alcohol, Drug Abuse and Mental Health Services Block provides funds to states to establish and maintain programs to combat alcohol and drug abuse, to care for the mentally ill and to promote mental health. It consoidates categorical programs for alcohol, drug abuse and mental health services.

The Preventive Health Block is intended to provide funds for a variety of public health services to reduce preventable morbidity and mortality and improve the quality of life. This Block includes eight programs: hypertension, health incentive grants, risk reduction and health education, fluoridation, rat control, emergency medical services, home health, and rape crisis.

The Maternal and Child Health Block is intended to provide funds for health services to mothers and children to reduce infant mortality, the incidence of preventable diseases and handicapping conditions among children; rehabilitative services for blind and disabled individuals under the age of 16, and treatment and care for crippled children. The Maternal and Child Health Block consolidates seven programs: Maternal and Child Health, Supplemental Security Income payments, Sudden Infant Death Syndrome, Lead-Based Paint poisoning, Genetic Diseases, Hemophilia and Adolescent Pregnancy. Funds for these programs go primarily to local health departments, non-profit agencies, or other local governmental agencies as appropriate to the purpose of the projects. Special emphasis is given to providing these services to rural and underserved areas and to areas with concentrations of low-income families.

California expects that the cutbacks in community health centers, mental health centers, and crippled children's hospitals will reduce health care services for the poor and disabled. In an effort to preserve as many services as possible, California public hospitals are likely to eliminate some very expensive services, such as neo-natal care, open-heart surgery, and end-stage renal dialysis, leading to higher mortality rates for poor people in need of special care. The state expects cuts in family planning services to lead to more unwanted pregnancies, greater demand for abortions, and more pregnancy complications, particularly for poor women.

The fiscal impact on the State Budget for Fiscal Year 1981-82 reflecting these changes in commitment and changes in Medicaid (Medi-Cal) are summarized as follows:

PROGRAM	LOSS OF FEDERAL SUPPORT TO STATE FY 1981-82 BUDGET	% REDUCTION TO TOTAL BUDGET
Primary Care*	$ 3.6 million	12.0
Alcohol, Drug & Mental Health Block	-------------	----
Preventive Health Block	7.4 million	59.0
Maternal & Child Health Block	5.8 million	29.0
Medicaid (Medi-Cal)	47.2 million	1.0

*NOT INCLUDED IN STATE BUDGET -- Federal grants awarded directly to local agencies.

B. UNEMPLOYMENT COMPENSATION

The framework of the Federal/State unemployment compensation system is established under the provisions of title III of the Social Security Act and the Federal Unemployment Tax Act (FUTA), chapter 23 of the Internal Revenue Code. The major provisions of the system are determined by state laws. In general, state laws establish eligibility requirements, the number of weeks an individual may collect unemployment compensation, the amount of the weekly benefit, the circumstances under which benefits may be denied, the length of denial, and the State unemployment tax structure. 1980 amendments to the Federal law established certain eligibility requirements and other limitations with respect to the extended benefits program, one-half of which is financed in part by the Federal Government.

Federal/State Extended Benefits

Under the Federal/State Extended Benefits program, up to a maximum of 13 additional weeks of unemployment compensation are payable to individuals who exhaust their State unemployment benefits. In States where the extended benefits program is triggered on, individuals who exhaust State benefits are entitled to receive additional weeks of benefits, at the same weekly payment amount, for one-half the number of weeks they received State benefits. For example, if the person was entitled to 20 weeks of State unemployment compensation, he or she would be entitled to 10 weeks of extended benefits. If the person was entitled to 26 weeks of State benefits, which is the maximum duration in most States, he or she could receive 13 weeks of extended benefits. No one can receive more than 39 weeks of State plus extended benefits.

Until September 25, 1982, extended benefits are payable in a State if the State average insured unemployment rate* for the most recent thirteen weeks equals or exceeds 4.0 percent and is 20 percent higher than the average insured unemployment rate for the corresponding thirteen week periods in the previous two years. In addition, when the State insured unemployment rate reaches 5.0 percent, a State, at its option, if State law so provides, may pay extended benefits even if the 20 percent factor is not met. Thirty-nine States have this optional State trigger in their laws.

Prior to the Reconciliation bill, extended benefits were paid in all States, regardless of the individual State unemployment rates, when the national insured unemployment rate equalled or exceeded 4.5 percent. This is referred to as the "national extended benefits trigger."

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*(The state insured unemployment rate is calculated by dividing the total number of individuals claiming unemployment compensation benefits by the total number of people covered under the state unemployment compensation law. The national insured unemployment rate is the average of all state insured unemployment rates. Prior to the Reconciliation bill, in determining both the state and national extended benefit trigger rates, individuals collecting state benefits plus individuals collecting extended benefits were included in the numerator in determining the state and national insured unemployment rates.)

Amendments contained in the Omnibus Budget Reconciliation Act of 1981 made the following changes in the extended benefits program:

(1) Effective upon enactment (August 15, 1981), the national trigger in the extended benefits program was repealed.

(2) Effective upon enactment, individuals claiming extended benefits were excluded from the numerator in determining the insured unemployment rate for extended benefits trigger purposes.

(3) Effective September 25, 1982, both the mandatory and optional state extended benefit trigger rates are increased by 1 percent. Extended benefits will be payable in a state when the insured unemployment rate equals or exceeds 5.0 percent (rather than 4.0 percent as under current law) and is 20 percent higher than the rate for the corresponding period in the previous two years; or, if state law provides, the average state insured unemployment rate equals or exceeds 6.0 percent (rather than 5.0 percent as under current law), without regard to the 20 percent factor.

(4) Effective September 25, 1982, extended benefits are limited to individuals who have 20 or more weeks of work, or the equivalent in wages, in their base period.

These changes will result in a reduction of approximately $159 million in unemployment compensation benefits paid to unemployed workers in California. In addition, there will be a reduction of $22 million in unemployment benefits paid to former military personnel because of changes contained in the 1981 Budget Act. The state will also lose approximately $25 million in Federal Unemployment Compensation/Employment Services Administrative Fund due to federal cutbacks enacted in the 1981 Budget Reconciliation Act and the Continuing Resolution for fiscal year 1982.

CALIFORNIA UNEMPLOYMENT STATISTICS

Total unemployment rate for state	November 1980 7.2	November 1981 8.2
Total unemployment rate for Sacramento	September 1980 7.1	September 1981 7.3
Insured unemployment rate (percent of workers covered under state unemployment compensation program claiming benefits):	12/6/80 4.0	12/12/81 4.3
Extended benefits "Trigger Rate" (extended benefits trigger off as of 3/21/81):	11/29/80 4.28 (138%)	11/28/81 3.49 (107%)

CALIFORNIA UNEMPLOYMENT COMPENSATION PROGRAM

	12/6/80	12/12/81
Number of Unemployment Compensation claimants in the state	386,666	419,203

	As of July, 1981
Maximum weekly unemployment payment	$130
Maximum number of weeks of state benefits	26
Earnings required to receive maximum benefits	$6,760 in base period
Maximum State unemployment tax:	
Base	$6,000
Rate	4.0%
Average state unemployment for 1981	2.6%
Outstanding Federal loans (as of 12/1/81)	0
Total state benefits paid in 1980	$1,430,650,000

C. EDUCATION

The following specific program cuts will furnish an indication of the impact of the Federal budget cuts on education programs in California:

i. Refugee Aid -- The newest major federal aid-to-education program is part of a series of comprehensive refugee resettlement acts of recent years, administered by the Department of Health and Human Services and the California Department of Social Services.

States must have applied to Washington by October 30 for their share of the $44 million appropriated for education spending in school year 1981-82. This sum covers multiple Congressional authorizations, the principal one being that to assist Indochinese refugees. The Administration seeks reductions in 1982-83.

California accounts for one-third of the nation's total of Southeast Asian refugees. Those of school age this year will attract about $400 each in federal school aid. Local public and non-public agencies apply to the state for federal aid. Local public and non-public agencies apply to the state for federal aid. K12 schools, community colleges and non-public social service agencies are the chief recipients.

ii. Child Development (Child Care) -- Federal funding of child care programs has been administered nationally through the U.S. Health and Human Services Department and the State Department of Social Services, which contracts with the State Department of Education for school and non-school based programs alike. (California is unique in its use of the state education agency to implement the federal program.)

Possible cuts in federal aid, however, will only moderately impact California, which this summer "bought out" annual federal revenues of $52 million. Programs affected by federal cuts and not bought out include:

- Indo-Chinese Refugee Program day-care funds.
- CETA-funded training of family day-care providers and aides.
- Work Incentive (WIN) funds designed to help parents stay off welfare rolls.
- Dozens of changes or reductions in child nutrition eligibility or cost-allowances.

iii. Impact on Local School Districts -- As of October 15, 1981, the State Department of Education estimated that the Administration's proposed cuts would reduce anticipated 1981-82 revenues for the eight major, federally-aided K-12 programs by $768 million, or approximately, 25 percent. The great majority of these revenues go directly to local school districts. In millions of dollars, they are as follows:

	Previously estimated 1981-82 revenues	Revenues under recent Administration proposal
ESEA - Title I	$314.0	$250.5
School Lunches and Child Nutrition	400.0	277.6
Federal Impact Aid (PL 81-874)	40.0	18.6
Special Education	78.6	60.1
Vocational Education	58.3	46.9
Bilingual Education	29.1	22.8
Migrant Education	48.3	44.4
State Block Grant	49.9	47.9
TOTALS	$1028.2	$768.8

Funds for school desegregation in Los Angeles, San Diego, Stockton, Pasadena, Long Beach, San Francisco, and San Bernardino have been folded into the Education Block Grant, which includes an overall cut of 39% from FY 80 funding levels.

100,000 students will receive reduced aid through the student aid and social security programs. This will affect both the students and universities already faced with declining enrollments and will come at a time when demand for university-trained workers is particularly acute.

D. ECONOMIC DEVELOPMENT AND HOUSING

The 1981-82 federal budget cuts will reduce assistance to local governments for community development activities, employment development (CETA), economic development (UDAG), waste water treatment projects, and regional planning.

i. Community Development Block Grants (CDBG)

The Community Development Block Grant Program (CDBG) provides grants to local government for funding community development activities. Generally, these funds are used to upgrade existing community facilities. The Carter budget proposed $4.03 billion for CDBG and UDAG. The Reagan budget combined the two programs and provided $4.166 billion. In FY 81 California received $335 million in CDBG funds. The Legislative Analyst estimates a loss of $16 million to local governments.

ii. Urban Development Action Grants (UDAG)

Urban Development Action Grants are administered by HUD directly to cities and urban counties to aid in the revitalization of economically distressed areas. The Carter budget proposed $675 million for UDAG. The Reagan budget provides for up to $550 million in UDAG grants. In FY 81 there were $17.5 million in UDAG grants. Since this is a discretionary program, it is unclear what the loss will be in budget terms. The Legislative Analyst, however, estimates the FY 81-82 and FY 82-83 loss to local government to be approximately $2 million each fiscal year.

iii. Comprehensive Employment and Training Act (CETA)

In the mid-1970's the CETA program was created to provide employment opportunities to persons unemployed during the 1974-75 recession. Approximately 30,000 people will be laid off as of October 1, 1981. The total amount of loss is $350 million.

iv. Housing

7,000 - 10,000 fewer new subsidized rental housing units will be built; this alone will reduce housing construction in California by over $300 million.

1.4 million California households will be removed from federal rental housing assistance eligibility because of changes in income cutoffs.

Poor people receiving federal housing subsidies will pay a proportionally higher share of their income for housing; generally the same people will be hurt by cuts in public transportation, health, food stamps, and social services.

E. SUMMARY OF THE IMPACT OF BUDGET REDUCTIONS ON THE STATE OF CALIFORNIA

Summary of Proposed Reductions*
1982-84

	General Program Area	Estimated Direct Loss in Federal Funds To:			Potential Savings to the State
		State Government	Local Government	Individuals	
1.	Social Services & AFDC	$ 60,900,000	$ 1,000,000	$ 114,600,000	$78,400,000
2.	Health	47,000,000	17,700,000	Unknown	None
3.	Employment & Manpower	80,760,658 to 88,560,658	302,116,193	182,072,606	None
4.	Business, Transportation, & Housing	4,678,028	85,605,000 to 110,455,000	Unknown	None
5.	General Government	1,597,889	400,000	1,800,000	None
6.	Resources	25,243,951	298,286,874	Unknown	None
7.	K-12 Education	9,000,000	71,200,000	Unknown	None
8.	Higher Education	2,000,000	700,000	28,300,000	None
9.	Executive	25,000	5,500,000	2,000,000 to 3,200,000	None
	Totals	$231,205,526 to 239,005,526	$782,608,067 to 807,458,067	$328,772,606 to 329,972,606	$78,400,000

* The above totals are the minimum effect on state and local programs.

IV. CALIFORNIA: SPECIFIC ECONOMIC AND PROGRAM DATA

A. SOCIAL SERVICES

Program or Department	Federal Funds Assumed in Governor's Budget	Estimated Direct Loss in Federal Funds to: State Government	Local Governments	Individuals	Potential Savings to the State	Potential Savings to the Counties
Social Services Block Grant[a]	$ 322,000,000	$-59,800,000	None	Undeterminable	Unknown	Unknown
AFDC (various Proposals)	1,488,643,000	None	None	$-74,100,000	$-73,100,000 (General Fund)	$-10,000,000
a. Cash grants	(1,540,521,000)	None	None	(-74,100,000)	(-70,600,000)	(-9,300,000)
b. Child support	(-51,878,000)	None	None		(-2,500,000) (General Fund)	(-700,000)
AFDC Administration	186,600,000	-1,100,000[b]	$-1,100,000[b]	--	-5,100,000	-4,900,000
Food Stamps						
a. Coupon value	526,900,000	None	None	-40,500,000	None	None
b. Administration	50,600,000	None	None	--	-200,000 (General Fund)	-100,000
SSI/SSP	897,100,000	None	Unknown	Unknown	Unknown	Unknown

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[a] This block grant would consolidate 11 separate programs including nine programs currently administered by four state agencies and funded through the state Budget Act. The remaining two programs are administered by local governments and are not funded through the State Budget Act. Actual allocations of available federal funds under the block grant proposal would be determined at the state level.

[b] Federal cost shift in financing training for county welfare department employees.

B. HEALTH

Program or Department	Federal Funds Assumed in Governor's Budget	Estimated Direct Loss in Federal Funds to: State Government	Local Governments	Individuals	Potential Savings to the State
Department of Health Services					
Block grant for Alcohol, Drug, and Mental Health Program	$ 54,600,000 (state) 5,000,000 (local)	Proposal would combine funds presently going to state and local governments into one grant administered by the state. Combined loss is		Impact not known	None
Total	$ 59,600,000	------------None------------			
Block grants for various preventive health categorical programs	$ 12,500,000 (state) 2,300,000 (local)	Proposal would combine funds presently going to state and local governments into one grant administered by the state. Combined loss is		Impact not known	None
Total	$ 14,800,000	---------$7,400,000---------			
Maternal and Child Health Block Grant	$ 19,200,000 (state) 2,800,000 (local)	Combined loss to state and local governments is		Unknown	None
Total	$ 22,000,000	---------$5,800,000---------			
Community Health Centers	None	None	$-3,600,000	Unknown	None
Office of Statewide Health Planning and Development Certificate of Need Program	$ 2,461,995	None	$ -900,000	None	None
Medi-Cal Program					
Closed-end Cap	$2,128,000,000	$-47,000,000	None	Unknown	None

C. EMPLOYMENT AND MANPOWER

Program or Department	Federal Funds Assumed in Governor's Budget	Estimated Direct Loss in Federal Funds to: State Government	Local Governments	Individuals	Potential Savings to the State
Employment Development Department					
Unemployment Insurance Benefits	$1,520,000,000	None	None	$-159,000,000 (maximum)	
Unemployment Insurance--Military Personnel	187,840,642	None	None	22,000,000	None
CETA--General Training and Employment Programs	73,000,182	$-15,341,819	1982-83 Impact	Unknown	None
CETA Public Service Jobs	24,008,151	-24,008,151	$-287,800,000	None	None
Youth Employment Programs	24,949,654	-13,078,947	Unknown	Unknown	None
Administration:					
Employment Services	89,227,030	-13,976,788	None	Unknown	None
Unemployment Insurance Services	185,836,299	-10,000,000	None	Unknown	None
Office of Economic Opportunity--Low Income Energy Assistance Program	80,882,547	1,054,953	None	1,072,606	None
State Office of Economic Development--Community Services Block Grant	State and local funds of: $ 47,146,193	----------$14,316,193----------		Unknown	None
Department of Rehabilitation Vocational Rehabilitation Services	81,506,300	Range between $-3,300,000 and -11,100,000	None	Unknown	None

V. Data on National Impact of Budget Reductions

The following four tables highlight the impact of budget reductions on programs under the jurisdiction of the Committee on Ways and Means. Table 1 contains state-by-state estimates from the Department of Health and Human Services on the number of families who will no longer be eligible for the Aid to Families with Dependent Children (AFDC) program as a result of the change in earnings disregards and the counting of stepparent income. Many of the 400,000 families who lose eligibility for AFDC will also lose Medicaid benefits. This table also contains estimates on the number of families who will have reduced benefits as a result of the 1981 Budget Reconciliation Act.

Table 2 shows the impact state by state of the loss in Title XX monies as a result of the reduced authorization level.

Table 3 illustrates the number of individuals and/or families and the average dollar loss per year for each of the major changes enacted in the Budget Reconciliation Act of 1981.

Table 4 is the total number of dollars saved or reduced benefits by major program. The Budget Reconciliation Act reduced spending by $8.9 billion in fiscal year 1982 and $29.1 billion from fiscal year 1982 to 1984 for programs under the jurisdiction of the Committee on Ways and Means.

TABLE 1

SUMMARY TABLE SHOWING FAMILIES THAT LOSE, OR ARE MADE INELIGIBLE BY CUMULATIVE EFFECTS OF PROPOSALS, FY 82*

	Families With Reduced Benefits		Families Made Ineligible	
	#	%	#	%
Alabama	4900	7.4	9291	14.0
Alaska	230	3.7	542	8.8
Arizona	1679	10.0	1400	8.3
Arkansas	2880	8.8	4180	12.8
California	42010	8.2	51017	10.0
Colorado	3006	9.9	4726	15.5
Connecticut	3836	7.9	8019	16.4
Delaware	870	7.2	1240	10.3
District of Columbia	2529	7.4	3311	9.6
Florida	3746	4.0	10307	11.0
Georgia	2452	2.9	9582	11.3
Hawaii	3034	14.8	3030	14.8
Idaho	499	6.1	1000	12.1
Illinois	14606	6.3	15983	6.9
Indiana	3756	6.9	10153	18.7
Iowa	3698	10.7	5217	15.0
Kansas	1553	6.3	5666	23.0
Kentucky	1821	2.8	9269	14.0
Louisiana	3335	4.7	5081	7.2
Maine	1592	7.3	4794	22.1
Maryland	3793	4.8	10853	13.8
Massachusetts	12048	8.9	25971	19.1
Michigan	22059	9.9	20622	9.2
Minnesota	5925	11.2	13901	26.3
Mississippi	4097	6.6	11528	19.0
Missouri	5364	7.6	13948	19.7
Montana	290	4.5	1744	27.3
Nebraska	1392	11.0	1629	12.8
Nevada	654	16.7	0	1.0
New Hampshire	1184	16.0	591	8.0
New Jersey	13638	8.5	11777	7.3
New Mexico	1444	7.9	580	3.2
New York	19367	5.0	15221	3.9
North Carolina	3898	4.8	9902	12.2
North Dakota	621	12.1	1051	20.4
Ohio	7672	4.2	15899	8.8
Oklahoma	1133	3.6	1812	5.8
Oregon	4444	9.6	3348	7.3
Pennsylvania	15529	6.8	24632	10.8
Rhode Island	2643	13.8	1920	10.0

South Carolina	2127	3.8	6171	11.1
South Dakota	741	9.5	925	11.9
Tennessee	1126	1.8	7085	11.0
Texas	4058	4.1	8119	18.3
Utah	1596	11.4	2084	14.9
Vermont	339	4.2	1356	16.7
Virginia	4469	7.1	8227	13.1
Washington	3166	5.7	2253	4.1
West Virginia	1411	5.0	1406	14.9
Wisconsin	10183	13.4	12068	15.9
Wyoming	153	5.7	408	15.3
U.S. TOTAL	258,528	6.9	400,836	10.7

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*These estimates incorporate the effect of the following seven proposals: (1) counting stepparent income, (2) eliminating eligibility of children age 18-20, (3) counting EITC advance payments, (4) standardizing work expense and child care deductions and applying the 1/3 disregard to net income, (5) eliminating 30 and 1/3 disregard for determining eligibility after four months, (6) eliminating benefits when gross income exceeds 150 percent of need standard, and (7) the $10 minimum payment.

TABLE 2

FY 1982 Federal Allotments to States for Social Services (Title XX Block Grant) Under Prior and Current Law [in thousands of dollars]

	Prior Law	Current Law	Amount of Reduction
Total	$3,000,000	$2,400,000	$600,000
Alabama	51,373	40,989	10,384
Alaska	5,534	4,215	1,319
Arizona	33,394	28,640	4,754
Arkansas	29,714	24,089	5,625
Califcrnia	309,326	249,403	59,923
Colorado	37,783	30,442	7,341
Connecticut	42,458	32,749	9,709
Delaware	7,933	6,270	1,663
District of Columbia	8,941	6,723	2,218
Florida	120,765	102,631	18,134
Georgia	69,746	57,575	12,171
Hawaii	12,471	10,168	2,303
Idahoi	12,335	9,947	2,388
Illinois	153,055	120,313	32,742
Indiana	73,604	57,849	15,755
Iowa	39,555	30,695	8,860
Kansas	32,290	24,899	7,391
Kentucky	48,074	38,576	9,498
Louisiana	54,767	44,298	10,469
Maine	14,952	11,854	3,098
Maryland	56,538	44,424	12,114
Massachusetts	78,633	60,451	18,182
Michigan	125,494	97,553	27,941
Minnesota	55,339	42,960	12,379
Mississippi	33,108	26,564	6,544
Missouri	66,339	51,811	14,528
Montana	10,713	8,293	2,420
Nebraska	21,454	16,543	4,911
Nevada	9,568	8,419	1,149
New Hampshire	12,090	9,705	2,385
New Jersey	99,937	77,595	22,342
New Mexico	16,915	13,698	3,217
New York	240,547	185,000	55,547
North Carolina	76,411	61,895	14,516
North Dakota	8,955	6,881	2,074
Ohio	146,267	113,769	32,498
Oklahoma	39,419	31,875	7,544
Oregon	34,444	27,744	6,700
Pennsylvania	159,897	125,044	34,853
Rhode Island	12,663	9,979	2,684
South Carolina	39,964	32,865	7,099
South Dakota	9,391	7,271	2,120
Tennessee	59,701	48,376	11,325
Texas	182,373	149,922	32,451
Utah	18,633	15,395	3,238
Vermont	6,720	5,384	1,336
Virginia	70,837	56,331	14,506
Washington	53,513	43,518	9,995
West Virginia	25,598	20,547	5,051
Wisconsin	64,335	49,577	14,758
Wyoming	6,134	4,963	1,171

TABLE 3

Number of Individuals/Families and the Average Dollar Loss Per Year
for the Major Changes Enacted
in the Budget Reconciliation Act of 1981

Program Change	Number of Individual/Families	Average Dollar Loss (full year basis)
AFDC		
Tightening of Earnings Disregards	260,000 families with reduced benefits (6.9% of caseload) 300,000 families with benefits eliminated (8% of caseload)	$1,400 plus loss of Medicaid for the families eliminated
Counting of Step-parents Income	100,000 families (2.7% of caseload)	$1,950 plus Medicaid
Social Security		
Elimination of Minimum Benefit	1,300,000 individuals	$1,000
Reduced Insurance Benefits for Post-secondary Education	250,000 individuals with benefits eliminated beginning 6/82	$3,000
	400,000 individuals with reduced benefits beginning 9/82	$1,970
Termination of Parent's Benefit When Child Attains Age 16	By 8/83 200,000 individuals will have benefits eliminated	$2,500
Restriction on Lump Sum Death Benefit	785,000 payments	$ 255
Unemployment Compensation		
Elimination of National Trigger*	640,000 individuals	$1,080
Redefinition of State Trigger Calculation*	850,000 individuals	$1,160
Medicare		
Increase in Beneficiary Copayments or Deductibles	17,000,000	$ 22

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*Highly sensitive to economic conditions. These estimates are from the Department of Labor mid-session review economic projections and are for fiscal year 1982.

TABLE 4

BUDGET IMPACT OF RECONCILIATION CONFERENCE AGREEMENT ON PROGRAMS WITHIN WAYS AND MEANS JURISDICTION[1]

	Fiscal Year (in millions of dollars)		
	1982	1983	1984
Trade Adjustment Assistance	-1,335	- 840	- 600
Social Security	-2,197	-3,778	-4,611
Unemployment Compensation[2]	-1,483	- 737	- 446
Aid to Families with Dependent Children	-1,026	-1,255	-1,303
Child Support Enforcement	- 132	- 143	- 157
Supplemental Security Income	- 95	- 123	- 120
Social Services Block Grant	- 699	- 749	- 799
Low-Income Energy Assistance	- 372	- 672	- 992
Medicare	-1,598	-1,310	-1,522
TOTAL[2]	-8,937	-9,607	-10,550

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[1] Based upon the economic assumptions of the first budget resolution.

[2] Does not include the revenue impact of the unemployment loan reform provisions.

VI. BACKGROUND INFORMATION ON SELECTED PROGRAMS

A. Social Services Program (Title XX)

Title XX of the Social Security Act authorizes funds to be provided on an entitlement basis to States for social services. Each State's share is determined on the basis of the proportion of its population to the total population of all the States. $2.4 billion is available to States under title XX in FY82 compared to approximately $3.0 billion in FY 81.

Title XX requires that each service provided under a State program be directed at achieving at least one of the following goals for the recipient:

--achieving or maintaining economic self-support or self-sufficiency;

--preventing or remedying abuse or neglect of children and adults unable to protect their own interest;

--preventing inappropriate institutional care by providing community based or home based care; or

--enabling individuals to secure appropriate institutional care when necessary.

Before expending funds under the title XX Social Services Block grant for any fiscal year, States are required to develop and make public a report on how the funds are to be used, including information about the types of activities to be funded and the characteristics of the individuals to be served.

Although title XX provides discretion to States to define services intended to accomplish the goals of the program there are certain limitations and requirements. For example, medical care may be financed with title XX funds only if it is integral to a social service; room and board may be paid for only if it is integral to a social service or is for the costs of subsistence during rehabilitation or temporary emergency shelter provided as a protective service. Services to residents of medical facilities, group homes, or halfway houses can be funded with title XX only if provided by an agency other than the facility where the individual resides and the same services are available to people who do not reside in such institutions.

Day care services for children consumed about 18 percent of all Federal funds spent for title XX in fiscal year 1980. Home based services, such as homemaker/chore services accounted for about 14 percent of all Federal funds in 1980. Protective services and other services related to child foster care accounted for another 19 percent. With few exceptions, expenditures for a particular service vary widely among the States. For example, in fiscal year 1980 California planned to spend 49 percent of their title XX funds for In-Home Supportive Services compared to 23 percent in the State of Washington.

The title XX agency may provide social services directly by its own staff, or it may choose to purchase services from other public and private organizations. In fiscal year 1978, 54 percent of title XX expenditures were made under contract to other social services agencies. Of this amount 33 percent were purchased from other public agencies. The remaining 46 percent of expenditures were for services provided directly by staff of the State agencies administering title XX.

Major Budget Reconciliation Act Changes in the Title XX Social Services Program

Reduced Funding

	Previous Law	Budget Reconciliation Act
FY 81	$3.0 billion	--
FY 82	3.1 billion	$2.4 billion
FY 83	3.2 billion	2.45 billion
FY 84	3.3 billion	2.4 billion
FY 85	3.4 billion	2.6 billion

Elimination of Certain Federal Priorities

The Budget Reconciliation Act eliminated the federally mandated priority that at least 50 percent of the Federal title XX funds received by a State must be expended for services to recipients of AFDC, SSI or medicaid.

The Budget Reconciliation Act also eliminated the following provisions in the title XX program related to targeting services to low income individuals and families:

--With certain exceptions, no person with gross family income higher than 115 percent of the State's median for a family of four (adjusted for family size) could receive title XX funded services. The exceptions were protective services for abused or neglected children or adults, family planning services and information and referral services.

--States had to charge fees reasonably related to income for services to individuals or families with incomes higher than 80 percent of the State's median income or the median income of all States, whichever was lower, and, they could at their option, charge fees for services to persons below that income level.

B. Aid to Families With Dependent Children (AFDC)

Eligibility and Financing

Aid to Dependent Children (ADC) was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers to support them. Renamed Aid to Families with Dependent Children (AFDC), it now provides cash welfare payments for needy children (and their mothers or other caretaker relatives), who have been deprived of parental support or care because:

-- their fathers are absent from home continually (85.9 percent of the children), are incapacitated (5.3 percent), dead (2.2 percent), or unemployed (5.2 percent); or

-- their mothers are incapacitated, absent or dead (1.4 percent). (Percentages are from the 1979 AFDC Study).

States define "need"; set their own benefit levels; establish (within Federal limitations) income and resource limits; and, administer the program or supervise its administration. All states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands offer AFDC to needy children without able-bodied fathers at home, and 28 jurisdictions offer Federal cash supplements also to children in two-parent families who are needy because of the unemployment of one of their parents (Aid to Families with Dependent Children of Unemployed Parents (AFDC-UP)).

Eligibility for federally aided AFDC ends on a child's 18th birthday. (Prior to the amendments contained in the 1981 Budget Reconciliation Act, a State could continue benefits through age 20 for those who were students.) Federal law requires certain able-bodied recipients, including mothers whose youngest child is at least 6 years old, to register for training and employment services (which may include job search for up to 8 weeks per year) under the Work Incentive program (WIN). The law also requires AFDC mothers to assign their child support rights to the State and to cooperate with welfare officials in establishing the paternity of a child born outside of marriage and in obtaining support payments from the father.

The Federal Government pays at least 50 percent of each State's benefit payments and more than 70 percent of benefit payments made by the four poorest States. Federal matching for AFDC varies from State to State depending, in part, on per capita income. The minimum Federal share is 55 percent. For States with below-average income, the Federal share ranges up to 77.36 percent in fiscal years 1982-83. The Federal government pays 50 percent of administrative costs in all States. In fiscal year 1980 AFDC benefits totaled $11.3 billion, and FY 81 benefits are expected to total $12.6 billion. Of total FY 80 benefits, $6.1 billion, or 54 percent, was paid by the Federal Government. At the start of FY 80, 11 States required their localities to help pay for benefits.

Benefits

Maximum AFDC payments vary sharply from State to State. State payments for AFDC families of three ranged in July 1981 from $96 in Mississippi to $506 in California. All AFDC families automatically are eligible for Medicaid, and most have income within limits of the food stamp program.

States are required by Federal law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. Prior to the Omnibus Budget Reconciliation Act of 1981, in order to provide a financial incentive for recipients to seek and maintain employment, the law required the deduction of an initial $30 in monthly earnings plus one-third of remaining earnings, plus work expenses (any expenses, including child care costs, reasonably attributable to the earning of income). When making an initial determination of eligibility, however, only work expenses are disregarded.

Amendments in the Budget Act limited the disregard for work expenses to $75 per month for full-time employment and capped the child care disregard at $160 per month per child. The $30 plus one-third disregard is allowed for only 4 consecutive months in a 12-month period. Furthermore, States are prohibited from paying AFDC to any family with a gross income at or above 150 percent of the State's standard of need. These changes drastically reduced the amount of earnings a recipient can have and still receive some amount of AFDC.

AFDC also provides cash aid for foster care of AFDC-eligible children removed from their home at judicial order and, under certain conditions, for those voluntarily placed in foster care. In August 1980, foster care payments were made on behalf of 100,146 children, 1.3 percent of all children enrolled. Their payments averaged $375 per child ($253 per child in foster care family homes, $1,103 per child in child care institutions).

Enrollment Data

The average number of AFDC recipients declined in FY 79 for the fourth straight year, averaging 10.3 million. The rolls peaked in FY 76 at a monthly average of 11.3 recipients in 3.6 million families. However, in August 1980, AFDC family enrollment climbed to a new all-time monthly high of 3.7 million, totaling 10.9 million persons. Of these families, 168,000 had unemployed parents.

As of November 1980, AFDC family enrollment was 3.8 million. This included 11 million recipients, of which 7.6 million (69%) were children. Of these AFDC families, 181,579 were two-parent families eligible because of an unemployed parent.

SUMMARY OF MAJOR AFDC AMENDMENTS IN THE FY 1982 BUDGET RECONCILIATION BILL

1. Limitation on Earnings Disregard: Limits the work expense disregard to $75 per month for full-time employment, and caps the child care disregard at $160 per month per child.

   The $30 plus one-third disregard is allowed only during the first four consecutive months in which a recipient has earnings in excess of the standard work expense and child care disregards.

2. Income Limit for AFDC Eligibility: Limits eligibility for AFDC to families with gross incomes at or below 150 percent of the State's standard of need.

3. Determination of Resources: Limits allowable resources to $1,000 (equity value) per family, excluding the home, clothing, furniture and one automobile with an equity value not in excess of $1,500.

4. Treatment of Earned Income Tax Credit (EITC) Advance Amount Under AFDC: In determining AFDC benefits, States must assume that an individual is receiving the EITC advance payment that he or she is eligible to receive, regardless of whether the person has applied for the advance payment.

5. Income of Stepparents Living With Dependent Child: Requires the net income of a stepparent be counted in determining eligibility and benefit amounts for AFDC recipients.

6. Community Work Experience Program: Authorizes States to establish community work experience programs for AFDC recipients. Under these programs, recipients would be required to work on public projects in return for their AFDC grants. The amount of work required in relation to the family's AFDC payments must be consistent with Federal or State wage provisions. Persons exempt under present law from participation in the WIN program would also generally be exempt from participation in this program except that parents caring for children under age 6 (but not under age 3) could be required to participate if child care is available.

7. Age Limit of Dependent Child: Limits benefits to children through age 17. A State could opt to provide benefits through age 18 to those who are completing high school.

8. Limitation on AFDC for Pregnant Women: Prohibits AFDC for pregnant women with no other children until the 6th month of pregnancy. However, a State could provide medicaid for AFDC-eligible pregnant women with no children from the determination of pregnancy.

9. **Eliminates Payments of Aid in Amounts Below $10:** Prohibits States from making AFDC payments of less than $10 a month. Individuals denied a benefit as a result of this provision would be considered recipients for all other purposes; including medicaid eligibility.

10. **Retrospective Accounting and Monthly Reporting:** Requires States to determine monthly benefits "retrospectively," on the basis of the actual income of the previous month, rather than on the estimated income of the forthcoming month. States would have to require recipients to provide monthly reports on income, family composition, resources, etc.

11. **Cost of Collection and Other Child Support Enforcement Services for Non-AFDC Families:** Requires States to retain a fee equal to 10 percent of the support collected. This 10 percent fee would be charged against the absent parent and added to the amount of collection.

C. UNEMPLOYMENT COMPENSATION

The framework of the Federal/State unemployment compensation system is established under the provisions of title III of the Social Security Act and the Federal Unemployment Tax Act (FUTA), chapter 23 of the Internal Revenue Code. The major provisions of the system are determined by state laws. In general, state laws establish eligibility requirements, the number of weeks an individual may collect unemployment compensation, the amount of the weekly benefit, the circumstances under which benefits may be denied, the length of denial, and the state unemployment tax structure. 1980 amendments to the Fedral law established certain eligibility requirements and other limitations with respect to the extended benefits program, one-half of which is financed in part by the Federal Government.

The unemployment compensation system is financed by State and Federal payroll taxes on employers. Three states also levy unemployment taxes on employees. The amount and structure of state unemployment taxes vary considerably among the states. Most states have a number of tax rate schedules and will use higher or lower schedules depending on the solvency of the state's trust fund. All jurisdictions, with the exception of Puerto Rico and the Virgin Islands, provide a system of experience rating under which state tax rates vary among employers according to the total amount of unemployment benefits that have recently been paid to former employees of each employer. The Federal unemployment tax rate is currently 0.7% on the first $6,000 in wages. This Federal tax is paid by all but "reimbursement basis" employers.

More than 87 million workers, or about 97 percent of wage and salary workers, are covered by the unemployment compensation system. "Covered" employment is employment subject to the Federal and/or state unemployment taxes; or, employment (such as employment for state and local governments and nonprofit organizations) that states are required by Federal law to cover under their programs even though such employment is not subject to the Federal unemployment tax.

An employer is subject to the Federal unemployment tax if, during the current or last year, he employed one or more individuals during some part of a day in each of at least 20 calendar weeks, or if he paid wages of $1,500 or more during one calendar quarter of either year. In addition, agricultural employers who employ 10 or more farmworkers in 20 weeks or have quarterly payrolls for agricultural services of $20,000 or more are covered. Also covered are employers who pay $1,000 cash wages or more in a quarter to domestic workers. Federal law also requires coverage of employment for nonprofit organizations with four or more workers and coverage of employment for state and local governments. Nonprofit organizations and state and local governments are not subject to the Federal tax and may finance benefits on a "reimbursement basis" rather than pay state unemployment taxes.

All State laws provide that, to receive benefits, a claimant must be (1) able to work and (2) available for work. These requirements are positive conditions that must be continually met in order to receive benefits. In addition, all States require that in order to receive benefits an individual must have earned a specified amount of wages and/or worked for a certain period of time prior to filing for unemployment compensation. The amount of wages or duration of previous employment that is required varies significantly from State to State. In general, the amount of a qualified claimant's weekly payment (up to a maximum amount specified in State law), and the number of weeks he or she can draw benefits, vary according to the claimant's previous wages.

Generally, States provide up to a maximum of 26 weeks of State unemployment compensation benefits to unemployed individuals who meet the qualifying requirements of State law. Many claimants qualify for less than the maximum 26 weeks, and in 9 States claimants may receive more than 26 weeks of State benefits.

Federal/State Extended Benefits

Under the Federal/State Extended Benefits program, up to a maximum of 13 additional weeks of unemployment compensation are payable to individuals who exhaust their State unemployment benefits. In States where the extended benefits program is triggered on, individuals who exhaust State benefits are entitled to receive additional weeks of benefits, at the same weekly payment amount, for one-half the number of weeks they received State benefits. For example, if the person was entitled to 20 weeks of State unemployment compensation, he or she would be entitled to 10 weeks of extended benefits. If the person was entitled to 26 weeks of State benefits, which is the maximum duration in most States, he or she could receive 13 weeks of extended benefits. No one can receive more than 39 weeks of State plus extended benefits.

Until September 25, 1982, extended benefits are payable in a State if the State average insured unemploymant rate* for the most recent thirteen weeks equals or exceeds 4.0 percent and is 20 percent higher than the average insured unemployment rate for the corresponding thirteen week periods in the previous two years. In addition, when the State insured unemployment rate reaches 5.0 percent, a State, at its option, if State law so provides, may pay extended benefits even if the 20 percent factor is not met. Thirty-nine States have this optional State trigger in their laws.

Prior to the Reconciliation bill, extended benefits were paid in all States, regardless of the individual State unemployment rates, when the national insured unemployment rate equalled or exceeded 4.5 percent. This is referred to as the "national extended benefits trigger."

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*(The state insured unemployment rate is calculated by dividing the total number of individuals claiming unemployment compensation benefits by the total number of people covered under the state unemployment compensation law. The national insured unemployment rate is the average of all state insured unemployment rates. Prior to the Reconciliation bill, in determining both the state and national extended benefit trigger rates, individuals collecting state benefits plus individuals collecting extended benefits were included in the numerator in determining the state and national insured unemployment rates.)

D. MEDICAID PROGRAM

DESCRIPTION. Medicaid is a Federal-State entitlement program that purchases health care for certain categories of poor people--the aged, blind, disabled, and mothers with dependent children. The States reimburse providers for delivering covered services to eligible persons. The Federal government matches these State outlays at a rate that ranges from 50% to 77%, depending upon a State's per capita income.

It is estimated that in FY 1982 Federal Medicaid matching payments to States will total $17 billion (after adjusting for reconciliation savings), while States (and in some cases localities) an additional $14 billion, making Medicaid by far the largest source of health care financing for the poor.

This $31 billion will purchase services for some 23 million people, roughly half of whom are children under 21. Within the general requirements of Title XIX of the Social Security Act, States have a great deal of discretion in administering their Medicaid programs. Thus, eligibility, benefits, and provider reimbursement policies vary considerably from State to State.

ELIGIBILITY. States must cover the "categorically needy." Basically, these are mothers and children receiving cash assistance under the Aid to Families with Dependent Children (AFDC) program, and aged, blind, or disabled persons receiving cash assistance under the Supplemental Security Income (SSI) program. (States can elect to impose more restrictive Medicaid standards on SSI beneficiaries).

States may cover the "medically needy." These are persons whose incomes and resources are too high to allow them to qualify for AFDC or SSI benefits but not high enough to enable them to afford medical care. To become eligible for Medicaid under the "medically needy" program, an individual may "spend down" by incurring medical expenses so that, when these expenses are subtracted from gross income, the individual's net income falls below the medically needy eligibility level established by the State. In a State such as Mississippi which does not offer coverage to the medically needy, a person who loses eligibility for AFDC or SSI loses Medicaid coverage as well. In a State such as Tennessee or Arkansas, a person who loses AFDC or SSI benefits may still qualify for medically needy Medicaid coverage by "spending down."

However, the income standard for the "medically needy" may be below that for the "categorically needy".

Nationally, it is estimated that of the 23 million people eligible for Medicaid in FY 82, 3.6 million will be aged, 3 million blind and disabled, 11 million children under 21, and 5.4 million adults in AFDC families.

BENEFITS: States must provide the following services to the categorically needy: inpatient hospital, outpatient hospital, laboratory and x-ray, skilled nursing facility (SNF), home health care services for persons eligible for SNF services, physicians' services, family planning, rural health clinic services, certified nurse midwife services, and early and periodic screening, diagnosis, and treatment (EPSDT) for children under 21. States may provide coverage for other "optional" services, such as prescription drugs, intermediate care facility services, dental care, clinic services, and eyeglasses.

For both the "mandatory" and "optional" services, States may set limitations on the amount, duration, and scope of coverage (for example, a limitation on the number of days of hospital care or the number of physicians' visits).

States may impose "nominal" copayments and deductibles on all services except the mandatory benefits provided to the categorically needy.

Benefits for the "medically needy" are generally less than benefits offered to the "categorically needy".

Under the "freedom of choice" provisions in current law, Medicaid beneficiaries are entitled to receive services from any hospital, nursing home, physician, or other provider who agrees to participate in the program. The States are, however, authorized to "lock" beneficiaries who overutilize services into particular providers for reasonable periods of time.

Nationally, the Medicaid dollar purchases mostly hospital and nursing home care. In 1979, about three-fourths of all Medicaid dollars were spent at such institutions, leaving only about a fourth of the dollars for outpatient and preventive health services.

Much of the Medicaid institutional dollar is spent on long-term care; in 1979, 35 percent of all Medicaid outlays paid for SNF and ICF nursing home services. Another 27 percent went to general hospitals. And 11 percent paid for institutional care for the mentally ill and mentally retarded. Medicaid is the largest single purchaser of nursing home care, accounting for about half of the $10 billion in industry revenues in 1980.

Major Reconciliation Act Changes in the Medicaid Program

Although the Administration did not secure Congressional approval of its proposal to "cap" the medicaid entitlement program, the Omnibus Budget Reconciliation Act of 1981 did make a number of major changes in the program which are likely to lead to state cutbacks. CBO estimated FY 82 Federal savings at $944 million. The major changes are:

1. Reduction in Federal Matching

States will be subject to a reduction of up to 3 percent in FY 82 in the amount of Federal matching payments they are otherwise entitled to. This reduction does not affect the States' statutory matching rate; rather, it is applied after the matching rate calculation is made. States can reduce the amount of the reduction by 1 percentage point for each of the following:

(a) operating a qualified hospital cost review program;

(b) sustaining an unemployment rate exceeding 150 percent of the national average;

(c) demonstrating recoveries from fraud and abuse activities equal to 1 percent of Federal payments.

In addition, States that keep their FY 82 medicaid outlays below 109 percent of the estimated FY 81 outlays will receive a dollar-for-dollar offset against the 3 percent reduction; for each dollar they are below the target, they lose one less dollar in reductions.

In FY 84, the percentage reduction is scheduled to increase to 4 percent; in FY 85, to 4.5 percent. Thus, losses in Federal funds to the States will increase over time.

2. Hospital Reimbursement

The previous requirement that States pay for medicaid inpatient hospital care on the same "reasonable cost" basis that medicare uses has been eliminated. Instead, States are now required to establish reimbursement levels that are "reasonable and adequate" to meet the costs that must be incurred by efficiently and economically operated facilities. In setting rates, States must take into account the situation of hospitals which serve a disproportionate number of low-income patients (e.g., public general and teaching hospitals).

3. Medically Needy

States have been given increased "flexibility" in designing their medically needy programs. They no longer need to cover all groups (e.g., aged, blind, disabled persons, and mothers and dependent children); they no longer need to offer each group a minimum number of services or a comparable service package. However, if they choose to cover any medically needy group, they must cover children up to 18 for ambulatory services and pregnant women for prenatal and delivery.

4. **Freedom of Choice Waivers**

The Secretary is authorized to allow States to restrict the providers or practitioners from which a medicaid beneficiary can obtain health care. States will have to apply to the Secretary for any such plans to assure that they are consistent with statutory standards relating to access and quality. These restrictions could be imposed on a statewide, regional or local basis.

VII. IMPACT OF THE ECONOMIC RECOVERY TAX ACT OF 1981 ON STATE AND LOCAL GOVERNMENTS

1. Erosion of State and Local Income Tax Bases

The capital cost recovery provisions of the 1981 Act will significantly erode the base of State corporate income taxes and, to a lesser extent, State and local individual income taxes. An analysis of this impact done by Citizens for Tax Justice concluded that the cumulative effect for the six-year period 1981 to 1986 will be a revenue loss of $27.6 billion. These estimates assume that all States will conform their income tax laws to the new Federal capital cost recovery provisions. In 25 States that conformity will occur automatically unless legislative action is taken to amend conformity statutes. The business community will undoubtedly press for conformity in other States on simplification grounds. The detailed estimates given below overstate this revenue impact because conformity is assumed in all cases and because they are based on the Administration's optimistic forecast for increased corporate profits.

1981-86 Income Tax Losses From Conforming To
The New Federal Depreciation Rules, All States
(millions of dollars)

	1981	1982	1983	1984	1985	1986	6-yr. Total
Corporate	480	1335	2740	4040	6120	8775	23490
Individual	50	300	500	720	1020	1445	4040
Total	530	1635	3240	4760	7140	10230	27530

2. Impact on the Market for Tax-Exempt Bonds

The 1981 Act will weaken demand for the tax-exempt securities issued by State and local governments, and hence put upward pressure on tax-exempt interest rates, for three reasons:

a. The reduction in the maximum individual income tax rate from 70 to 50 percent will weaken the demand on the part of high income individuals for tax-exempt bonds.

b. The leasing rules that are a part of the capital cost recovery provisions open a new avenue of tax minimization for the commercial banks which have traditionally been the largest purchasers of newly issued tax-exempt securities.

c. All-Savers certificates compete with newly issued short-term tax-exempt securities.

Mr. Pickle [presiding]. The committee will come to order.

This is a field hearing of the Ways and Means Committee, and we are delighted to be here in California.

Before we proceed, I would like to recognize the Congressman from this district, the Honorable Robert T. Matsui, who has been exceedingly kind to all the members.

Mr. Matsui. Thank you, Mr. Pickle.

I would like to thank you, Mr. Pickle and all members of this committee, for coming to Sacramento and taking part in this field hearing. It is somewhat of an historic first. Given that there are 12 members who are attending today, it is one of the largest field hearings of a congressional committee we have ever had in California.

We look forward to having the chairman when he arrives.

I yield back, Mr. Chairman.

Mr. Pickle. We want to thank you again.

I am J. J. Pickle, and I am serving as chairman only until such time as Chairman Rostenkowski lands and gets here.

We want to thank you, because your people met us at the airport, got us a hotel, and last evening we were privileged to visit with your distinguished Governor and many of the officials of the State who made us feel very, very welcome.

I have a statement which I will present to the committee. This is Chairman Rostenkowski's statement, and I will read it to you.

Fourteen months ago the country voted for a change—not just a change of Presidents, but a change in the way Government does business. President Reagan responded with $200 billion in spending cuts—primarily out of human services—as part of his supply-side economic plan. He has cut tax revenues by $750 billion over the next 5 years and has dramatically increased defense spending.

Since then the country has slumped into a serious recession. Unemployment is about to pass 9 percent. Business is hunkered down for a long winter. The promise of a balanced budget has long been forgotten. The deficit for the next 3 years could exceed $400 billion.

Next week the President will outline further spending cuts that, we are told, amount to more than $30 billion in the coming fiscal year. And again, we expect the social programs to be his primary targets.

The question we want to ask today is how strong is the safety net for people traditionally protected by Government—the elderly, the jobless, the poor, and the disabled.

We have come to Sacramento not just to test the impact of last year's budget cuts—but also to measure the capacity of State and local government to absorb further cuts. We have come to talk with the faces behind the statistics—and to assess the ability of private industry and charities to fill the gap left by Federal program cuts.

Only then can we on this committee and the Congress as a whole temper the President's economic theories with true human demands.

We are privileged to have several witnesses here today, and particularly privileged to have as our first witness the Governor, the Honorable Edmund G. Brown.

He is one of the most exciting and interesting——

Governor BROWN. Just what I needed.

Mr. PICKLE. As a Texan, I am particularly pleased to be here in the second largest State and welcome you to testify.

Welcome, Governor Brown.

STATEMENT OF HON. EDMUND G. BROWN, GOVERNOR OF THE STATE OF CALIFORNIA

Governor BROWN. With that introduction, I feel I can proceed with great confidence. That is because I checked the acting chairman out too late last night.

I am very pleased to be able to testify before this very important hearing, and I am submitting for your consideration these written materials which you should have a copy of, and in this blue booklet is outlined quite specifically the detailed cutbacks that have been caused in California by the Reagan decisions over the last year.

Do you have them there?

Mr. PICKLE. They are being passed out.

[The booklet referred to follows:]

FEDERAL BUDGET REDUCTIONS

Historically, Federal funds have accounted for approximately 25 percent of the total funds authorized for expenditure through the annual State Budget process. In addition, a substantial amount of funds have gone directly from the Federal government to local entities and individuals in California. These funds cover, to some extent, almost all program areas with the Federal funds being the major, or at least an equal part of a program in many instances, and only a minor supplement in other areas. Basically, these federal funds come to the State in two ways:

1. Entitlements—These are the programs such as Aid to Families With Dependent Children (AFDC), Unemployment Insurance or Medi-Cal where, if an individual meets certain Federal-State criteria, then he or she is entitled to a specific level of assistance or service. These are openended programs whereby the total cost to the Federal government (and in most cases the State when it is required to share program costs) is determined by the number of persons who qualify. The only way to control costs is to reduce benefits and/or tighten eligibility, or as the Federal government did in some cases this year, shift a portion of its share of the cost to the states or local governments.
2. Categorical Programs—These are programs aimed at specific areas. In these instances, the State or local government receiving the categorical funds is required to spend the funds, and matching funds which are usually required, in specific ways.

It is because of the pervasive nature of the Federal involvement in, and funding of, State and local programs that the recent actions taken by the Federal government have a substantial impact on the State, local entities, and individuals dependent upon government for services.

While we cannot, due to the continuing uncertainties of the Federal budget process, state the exact amount of Federal funds which have been lost to California, a reasonable estimate of the total loss in State, local and direct payments to individuals in California is at least $1.5 billion on an annualized basis.

Of this total, the largest portion of the reductions come in the Health, Welfare and Employment areas. CETA-Public Service Employment accounts for a loss of some $300 million of which 90 percent were funds going directly to local entities. Other large areas of reduction include an AFDC reduction of approximately $180 million in Federal, State and county funds, cuts in Title XX Social Services (this program supports In-Home Supportive Services and other adult and child protective services), Food Stamps and a shift of Federal Medi-Cal costs to the State.

Additional areas of major reduction include education, housing assistance, economic and business grants and mass transit assistance. Smaller reductions were made in other programs such as Parks and Recreation, Coastal Commission and several others.

It is argued by some in the Federal government that viewed solely from the perspective of California's economy, this loss of Federal expenditures in the State is offset, or nearly so, by the infusion in the State's economy of the additional dollars retained by the people of the State due to Federal tax reductions. While this may be true in an overall economic sense, it is also true that these program reductions and accompanying tax reductions constitute an income transfer from those in society who are most needy to those in the State who are better off and, in some cases, much better off. Some of the impacts of this income transfer on the poorer citizens of California are:

1. 8,000 fewer rent subsidized housing units.
2. Reduced or eliminated In-Home Supportive Services to approximately 15,000 aged, blind and disabled.
3. Elimination of 122,000 persons from AFDC and reduced benefits to another 330,000 out of 1,500,000 recipients.
4. Reduced Food Stamp benefits to all 360,000 California households receiving food stamps and elimination of benefits for 16,500 households.
5. Elimination of unemployment benefits to some 27,000 persons leaving military services.
6. Loss of some 32,000 entry-level jobs in public service directed at assisting the poor and minorities in finding permanent employment.
7. Loss of job placements for thousands of unemployed persons due to reduction in EDD employment assistance programs.
8. Loss of some 700 additional youth employment job slots.
9. Elimination or delay in rehabilitation services for about 7,500 blind, deaf or disabled persons.

Following is a review of the effect of major federal budget reductions. Additonal details on each area are attached.

HEALTH

For 1981-82, cuts in the federal Medicaid program will reduce aid for health care to California's poor by $61 million, requiring lower rates of reimbursement to providers, tightened eligibility and other changes.

In addition, one-third of the state's federal aid to licensing and certification of health care providers has been cut for a total of $2.8 million. The cuts will jeopardize the ability of the state to assure quality care in nursing homes, hospitals, clinics and laboratories.

EMPLOYMENT

Severe reductions will be made in state job service programs that help unemployed Californians and welfare recipients find work.

The Employment Development Department will be forced to reduce staffing for its statewide job service by almost two-thirds and reduce staffing for its special program to help welfare recipients find jobs by nearly half.

The cuts in the program to put welfare recipients to work are estimated to reduce job placements for welfare recipients by 20,000 at a cost in additional welfare payments of $78 million.

The cuts come at a time when more than one million Californians are out of work and will make it more difficult for many of these unemployed to find new jobs.

TITLE XX OF THE SOCIAL SECURITY ACT

Title XX funds to California were reduced $58 million for the state fiscal year 1981-82, a cut of 22 percent. The state was able to shift $18 million from other funding sources to make up a portion of the shortfall.

However, it is estimated that 15,000 aged, blind and disabled persons will be affected by these cuts.

AID TO FAMILIES WITH DEPENDENT CHILDREN

Reductions in the AFDC program will remove 122,000 people from assistance and reduce grants to 330,000 others.

A number of the changes fall on the working poor, those who supplement their grant with a small wage.

Certain changes may create cases in which working recipients find themselves with less money than recipients who do not work.

EDUCATION

Wilson Riles, the State Superintendent of Public Instruction, has estimated that if all proposals by the Reagan administration are enacted by 1983-84, federal financial assistance to elementary and secondary education over two years would be reduced by 41 percent.

The reductions also mean loss of funding to pay the salaries of more than 14,000 teachers and other instructional personnel.

The funding cutbacks mean either a reduction in services for about half of all 2 million children receiving federal assistance or elimination of services entirely to more than 300,000 children.

The cutbacks would be felt in compensatory education for disadvantaged students, aid to children of migrant families and the handicapped, vocational education and aid to children who speak limited English.

BLOCK GRANTS

The Reagan administration's block grant proposals also contain significant budget reductions.

The Omnibus Budget Reconciliation Act of 1981 provided that 57 categorical programs be combined into nine block grants to be made available to the States at a reduced funding level for the federal fiscal year which began on October 1, 1981.

As proposed, this conversion from categorical programs to block grants was to accomplish savings by reducing federal requirements and thereby reducing red tape and both state and federal administrative costs. At the same time, it was intended to allow States the flexibility to focus the reduced funds in those areas where the States felt their priorities to be the highest.

The Reconciliation Act also provided that the States had the option, during the 1982 federal fiscal year, of accepting the block grants or having the federal government continue to administer the block grants as categorical programs and prorate the reduced funding on the basis of the categorical allotments of the previous (1981) fiscal year. At the end of the 1981 regular session, the Legislature passed AB 2185 (Chapter 1186/81) which directed that the State take over only two block grants during the 1981-82 state fiscal year and directed that the balance of the block grants not be accepted until 1982-83. The two block grants which the bill directed be accepted this year are the Title XX Social Services grant and the Low Income Home Energy Assistance Program (LIHEAP). The remaining block grants are proposed to be accepted effective October 1, 1982.

The acceptance at this time would coincide with the federal fiscal year and provide for a smoother transition. The one exception is the primary care grant which is the only one which the Reconciliation Act clearly provides may be administered by the federal government after October 1, 1982.

The activities and funds contained in this grant have always gone directly from the federal government to the local entities carrying out these activities. In addition, for the state to accept the grant would require a new general fund match of 20 percent in 1982-83 and 33⅓ percent 1983-84 and no grant funds can be used for state administration. Therefore, California will consider allowing the federal government to continue its administration of this block grant.

The amounts estimated for 1982-83 are based upon authorization levels and are, therefore, subject to considerable change in the 1983 budget yet to be proposed by the President and acted upon by the Congress. In addition, the amounts for 1981-82 are still somewhat tentative since, with one exception, no 1982 appropriations have been made in this area. The programs are currently being funded by a continuing resolution which runs through March 31, 1982. At that time, either full-year appropriations or new continuing resolutions will have to be passed to continue funding for these programs. It should be noted that the current resolution has a reduced level of funding from the 1982 fiscal year for several of these block grants. This reduced level will probably be retained for the balance of this fiscal year and most likely will reduce the amounts now estimated for 1982-83.

SUMMARY OF BLOCK GRANTS TO BE RECEIVED IN CALIFORNIA IN 1982-83

[In thousands of dollars]

	1981-82 planned before reductions	1981-82 after reductions	1982-83
Title XX	322,754	265,302	254,555
Low income energy assistance	80,883	80,640	80,640
Alcohol and drug	34,000	39,554	32,737

SUMMARY OF BLOCK GRANTS TO BE RECEIVED IN CALIFORNIA IN 1982–83—Continued

[In thousands of dollars]

	1981–82 planned before reductions	1981–82 after reductions	1982–83
Mental health	18,044	17,876	14,280
Community services agency	32,830	32,830	31,536
Maternal and child health	23,515	21,336	21,336
Preventive health	7,160	6,724	6,829
Primary care	22,904	22,904	(22,904)
Housing and community development	27,000	23,000	23,000
Education	65,046	65,046	42,000

Impact of Major Budget Cuts (Public Law 97-35) on Social Services Programs in California (Title XX of the Social Security Act)

The enactment of the Federal Omnibus Reconciliation Act of 1981 on August 13, 1981, reduced the Federal allocation of Title XX funds to California by $58.1 million for State fiscal year 1981-82. This represented a reduction of approximately 21.6 percent of the amount necessary to maintain services as projected in the State's Comprehensive Annual Services Program Plan (CASP) for 1981-82. The Department was able to mitigate the $58 million shortfall to approximately $40 million by transferring $18 million from other Federal funding sources to social services programs. These sources included Title IV-B (Child Welfare Services), Low-Income Energy Block Grant Funds and Federal funds that had been historically earmarked for Title XX Staff Development. The $40 million shortfall was prorated to the In-Home Supportive Services (IHSS) Program and Other County Social Services (OCSS) Programs in proportion to their base percentage of total State and Federal funds projected to be expended in each area in 1981-82. The net effect of this transaction was a reduction in the IHSS Program of $26 million and $14 million to OCSS.

It is also anticipated that the Federal budget cuts will result in an overall reduction in social services staff. Many counties have already initiated the lay-off process. Those most directly affected by lay-offs will be social workers and eligibility workers. These workers will suffer the majority of outright termination and/or demotions. This will generally result in increased caseloads and a decreased ability to provide direct services to clients. There is also the possibility that the personnel actions taken will initially result in less in-depth evaluation of cases, including the monitoring functions. There will be a significant departure from the programmatic ideal of prevention of "problems", especially in the family services area, and only individuals and families in crisis will be the recipients of services. We will see more paperwork and less services. Those most severely in need of services will constitute the client population. Those people requiring less critical services intervention, low priority services, or discontinued services are the worst losers and the ones who will most reflect the impact of the enactment of the Budget Reconciliation Act.

IMPACT OF THE MAJOR FEDERAL BUDGET CUTS (PUBLIC LAW 97–35) ON PERSONS RECEIVING AID TO FAMILIES WITH DEPENDENT CHILDREN IN CALIFORNIA

Item	Ineligibles		Grant reductions	
	Cases	Persons	Cases	Persons
Grand total	41,085	122,473	100,230	329,795
Disregard of earned income	9,789	32,048	54,223	177,526
Income limit for eligibility	21,894	62,307	None	None
Determination of resources	Unknown	Unknown	Unknown	Unknown
Assume receipt of earned income tax credit (EIC)	Unknown	Unknown	Unknown	Unknown
Stepparent's obligation to support stepchildren	5,720	15,902	7,088	19,705
Work registration requirement	Unknown	Unknown	Unknown	Unknown
Age limits for 18-year-olds	768	1,387	1,057	2,938
Limitation on eligibility to pregnant women	None	None	23,726	85,930

IMPACT OF THE MAJOR FEDERAL BUDGET CUTS (PUBLIC LAW 97-35) ON PERSONS RECEIVING AID TO FAMILIES WITH DEPENDENT CHILDREN IN CALIFORNIA—Continued

Item	Ineligibles		Grant reductions	
	Cases	Persons	Cases	Persons
Prohibiting payments of less than $10	Negligible	Negligible	Negligible	Negligible
Monthly reporting	None	None	None	None
Retrospective budgeting	None	None	5,942	18,302
Eligibility of aliens	435	2,184	1,464	7,351
Sponsored aliens	Unknown	Unknown	Unknown	Unknown
Lump-sum payments	1,494	4,006	6,730	18,043
Aid to families with dependent children by reason of unemployment of a parent	985	4,639	None	None

I. Description of the Change

SEC. 15421. DISREGARD OF EARNED INCOME

This revises the method to determine the amounts disregarded from earned income before the earned income is used to compute the AFDC grant. The following amounts are disregarded in the order given: (a) $75 for all work-related expenses except for child care if the recipient works full time throughout the month (or a lesser amount if not full time throughout the month); (b) up to $160 per child for child care (or lesser if the recipient does not work full time throughout the month); (c) $30; (d) one-third of the remainder. This change limits the allowance of the $30 plus one-third disregard to a maximum period of four consecutive months. This change also specifies that there will be no deductions from or disregard of earned income if the applicant/recipient submits their monthly report late.

Existing AFDC regulations provide that in the determination of net nonexempt earned income, $30 plus one-third of the remainder of the gross earnings of the AFDC-FBU, is disregared for so long as the recipient receives earnings and meets all other conditions of eligibility. In addition, actual amounts for work expenses are allowed.

II. Caseload Impact

9,789 cases will be ineligible; 54,223 cases will have reduced grants.

I. Description of the Change

SEC. 15423. INCOME LIMIT FOR ELIGIBILITY

A family will be ineligible for AFDC if their gross income exceeds 150 percent of the established need standard.

Under current AFDC regulations, to determine if a family is eligible, work-related expenses are deducted from gross income and the resulting net income is compared with the state's need standard. If the family's net income falls below the state's need standard, the family is eligible.

II. Caseload Impact

21,8944 cases will be ineligible.

I. Description of the Change

SEC. 15422(B). DETERMINATION OF RESOURCES

This provides that the maximum resource limit is $1,000 or a lower amount as determined by the state. The resource limit is determined by deduction from the fair market value of the resource any obligations or debts still outstanding on those resources. Excluded from consideration in the resource limit is the value of a car as determined by the state and a home owned and used by the assistance unit.

Existing regulations provide that an otherwise eligible household may receive AFDC provided the net market value of personal property owned by the household does not exceed $1,600, of which no more than $600 can be in cash or liquid assets.

Existing regulations exempt from evaluation a car necessary to implement and continue an approved plan of employment whose net market value does not exceed $1,500.

Existing regulations exempt from evaluation real property whose value does not exceed $5,000, computed by subtracting encumbrances from one-fourth the market value.

II. Caseload Impact

Unknown.

I. Description of the Change

SEC. 15424. LUMP-SUM PAYMENTS

Lump-sum payments received in a month are added to a family's other countable income for that month. If the combined amount exceeds the standard of need for the family, the combined amount is divided by this need standard. The family is ineligible for aid for the same number of months as the whole number that results from the division. Any remainder is counted as income in the first month after the period of ineligibility ends.

Under current regulations, nonrecurring lump-sum social insurance payments are considered property in the month of receipt.

II. Caseload Impact

1,494 cases will be ineligible; 6,730 cases will have reduced grants.

I. Description of the Change

SEC. 15425. ASSUME RECEIPT OF EIC

When a recipient with earned income is not receiving an advance earned income tax credit (EIC), the amount of the EIC to which the recipient could be eligible is assumed and is included as part of the recipient's earned income.

Existing AFDC regulations apply EIC payments against the AFDC payment only if the EIC is received as an advance payment or as a tax refund.

II. Caseload Impact

Unknown.

I. Description of the Change

SEC. 15426. STEPPARENT'S OBLIGATION TO SUPPORT STEPCHILDREN

When a stepparent lives with aided stepchildren, this requires that all of a stepparent's income, after certain specified obligations and expenses are met, is assumed to be available to the assistance unit.

Existing AFDC regulations specify the method for calculating that portion of a stepparent's income which is allocable to the AFDC-FBU based upon the spouse's community property interest in the income (one-half).

II. Caseload Impact

5,720 cases will be ineligible; 7,088 cases will have reduced grants.

I. Description of the Chanage

SEC. 15434. WORK REGISTRATION REQUIREMENT

The WIN exemptions will be changed to provide that a child who is under the age of 16, or attending, full time, an elementary, secondary, or vocational (or technical) school, will be exempted. Also exempted are parents caring for a child under six years of age.

II. Caseload Impact

Unknown.

I. Description of the Change

SEC. 15431. AGE LIMITATION FOR 18-YEAR-OLDS

The state may elect to provide assistance to 18-year-olds only if he/she is a full-time student in a secondary school, or the equivalent level of vocational or technical training and may be expected to complete the program before reaching age 19.

Existing AFDC regulations extend eligibilty to 18, 19, and 20-year-old dependent children who are in high school or vocational training.

II. Caseload Impact

768 cases will be ineligible; 1,057 cases will have reduced grants.

I. Description of the Change

SEC. 15432. LIMITATION ON ELIGIBILITY TO PREGNANT WOMEN

Aid to unborns is eliminated, but states may elect to provide assistance to women in the last four months of their pregnancy if they can provide medical verification of such pregnancy. Aid to pregnant women who have other children who are eligible for AFDC is not affected.

Under existing AFDC regulations, an unborn child is considered a needy eligible person in the AFDC-FBU for purposes of determining eligibility and amount of aid. In addition, the mother of an unborn child with no other children is also eligible upon verification of pregnancy.

II. Caseload Impact

23,726 cases will have reduced grants.

I. Description of the Change

SEC. 15433. AID TO FAMILIES WITH DEPENDENT CHILDREN BY REASON OF UNEMPLOYMENT OF A PARENT

Limits the definition of "unemployed parent" to whichever parent has earned the greater amount of income in the last 24 months.

Under current AFDC regulations, families establish eligibility on the basis of the unemployment of either parent in the FBU.

II. Caseload Impact

985 cases will be ineligible.

I. Description of the Change

SEC. 15436. PROHIBITING PAYMENTS OF LESS THAN $10

Where the amount of an assistance unit's monthly payment would be less than $10, the state shall make no payment for that month. Families to whom a payment is denied solely because of this provision are considered to be recipients of AFDC for all purposes except eligibility in a Community Work Experience Program.

II. Caseload Impact

Negligible impact.

I. Description of the Change

SEC. 15435. MONTHLY REPORTING

States are required to establish a monthly reporting system that will require recipients to report monthly all income and changes in their circumstances. Reminder notices are no longer required if the report is late or incomplete. Adequate notice will be required to inform recipients of discontinuance or any change in their grant.

These notices must be mailed to the recipient by the date they would normally receive their check.

II. Caseload Impact

None; administrative impact only.

I. Description of the Change

SEC. 15435. RETROSPECTIVE BUDGETING

States must determine eligibility based on income and circumstances expected for a month. Assistance payments must be computed using income received in the first, or if approved by the Department of Health and Human Services (DHHS), the second month preceding that month. The exception is that the assistance payments for the first month, and if approved by DHHS, the second month of eligibility, must be computed using income received in that month. Supplemental payments when the current month's income drops as compared to the prior month's budget income are eliminated. States may elect to suspend rather than terminate assistance when it is expected that ineligibility would be only for one payment month caused by a regular and periodic extra paycheck from a recurring income source.

II. Caseload Impact

5,942 cases will have reduced grants.

I. Description of the Change

SEC. 15446. SPONSORED ALIENS

For purposes of the following provisions, a sponsor is an individual, not an organization, who executes an affidavit of support, or a similar agreement, on behalf of the alien (who is not the child of the sponsor or of the sponsor's spouse) as a condition of the alien's entry into the U.S. These provisions apply for a period of three years after the alien's entry into the United States.

Sponsor's income attributable to an aided alien

After application of specified exemptions and disregards, the income of a sponsor and his/her spouse living in the home shall be deemed to be the unearned income of an aided alien.

Attribution of sponsor's resources to aliens

For purposes of determining an alien's eligibility for AFDC, the amount of resources of the alien's sponsor, after disregarding $1,500, shall be deemed to be the resources of the alien.

Overpayments to sponsored aliens

Any sponsor of an alien, and the alien, will be jointly and severally liable for any overpayment to the alien when such overpayment is due to the sponsor's failure to provide correct information.

Existing AFDC regulations provide that only the alien's resources and income are considered in the determination of eligibility, amount of aid, and ability to repay an overpayment.

II. Caseload Impact

Unknown.

I. Description of the Change

SEC. 15446. ELIGIBILITY OF ALIENS

Only those aliens lawfully admitted for permanent residence or otherwise permanently residing in the United States under color of law are eligible for AFDC.

Existing AFDC regulations grant aid to those aliens who are lawfully admitted for permanent residence or who are permanently residing in the U.S. under color of law. In addition, current state regulations grant aid paid pending to those alien applicants who are awaiting verification of their status from INS.

II. Caseload impact

435 cases will be ineligible; 1,464 cases will have reduced grants.

THE IMPACT OF FEDERAL FUNDING CUTBACKS, EMPLOYMENT DEVELOPMENT DEPARTMENT, STATE OF CALIFORNIA, JANUARY 1982

The latest Federal buget cuts for EDD program administration will result in a reduction of an additional 1,039 positions in California's employment services programs and a reduction of 377 positions in the State's Work Incentive program which moves welfare clients into jobs and off public assistance. This represents a 64 percent reduction in field office staffing providing employment services and a 47 percent reduction in staffing for the Work Incentive program.

The U.S. Department of Labor has mandated that most of these reductions be absorbed by EDD's Job Service, to permit the Unemployment Insurance program to continue to provide prompt service to all claimants. As a result, the latest cutbacks will leave fewer than 836 employment service staff spread throughout California to serve the State's labor force of 11 million and its half a million employers.

With over one million Californians unemployed and the number expected to climb even higher in the next several months, the program that has traditionally provided counseling and job finding services to aid unemployed workers, will be drastically reduced and in some locations these employment services will be virtualy eliminated.

The 47 percent drop in the staff of the Work Incentive program represents a drop of nearly 20,000 job entries lasting at least a month. Last year, the total for these job entries amounted to 45,000. The loss in job entries will create a $78 million decline in welfare grant reductions, which totalled over $176 million last year. Forty-five percent of the savings from these grant reductions accrue to the State and five percent to its counties, with the Federal government recouping the remaining 50 percent. Thus, the State and local budget impact will be approximately $39 million in lost welfare grant reductions.

Cuts to a much lesser degree will be made to the Unemployment Insurance program. Benefits paid will not be affected, as the cuts only impact the funds for administration of the program.

The funding levels proposed in the President's budget in March, 1981, indicated that the Employment Development Department programs would have to operate with reduced resources from the fiscal year 1981 funding level. In the Job Service program, the proposed budget level translated to a 17 percent cut, the WIN proposed funding level provided for no added funds to allow for increased costs due to inflation, and the UI program faced a 3 percent across the board productivity cut. Cost reduction steps were taken immediately in anticipation of lower funding levels in fiscal year 1982.

However, the third Continuing Resolution, signed by the President on December 15, 1981, setting the appropriations level for fiscal year 1982, contained an additional 12 percent cut from the proposed level of funding (and the operating level for the first quarter of fiscal year 1982), and the cut was retroactive to the beginning of the fiscal year. In addition, WIN funding was cut 33 percent from the level proposed by the Administration in March.

Despite our prior cost reduction steps, the magnitude of these further cuts from the already reduced level at which we were operating will force drastic curtailment of all the job services which EDD provides to the workers, unemployed, and welfare registrants in the State of California.

JOB SERVICE PROGRAM

The Job Service, begun under the authority of the Wagner-Peyser Act of 1933, has performed the labor exchange function and provided employment services to California and the Nation for almost 50 years. The Continuing Resolution appropriation combined Job Service and Unemployment Insurance Administrative grants into a single pot and reduced it 12 percent. The Department of Labor has recognized that the Unemployment Insurance (UI) program can not absorb its proportionate share of cuts and continue to issue Unemployment Insurance checks in a timely manner. Therefore, nationwide the Job Service has to bear the brunt of the 12 percent cut. In California, the Job Service has to absorb the entire cut because the level of UI administrative funding provided to California is barely adequate to cover the current mandated operations in the Unemployment Insurance program. The critical problem for the Job Service is that the cuts are immediate and retroactive. The only way to respond is to reduce staffing.

Field office staff must be cut 64 percent, that is 1,039 fewer persons to provide employment services.

Total staff remaining in the field offices will be 836. This total includes the 220 Disabled Veterans Outreach Program (DVOP) staff that must be absorbed and 100 Local Veterans Employment Representatives (LVER). These staff members are mandated to serve veterans only.

Fewer than 300 of the staff remaining in the field office can be dedicated to providing employment and placement services to the non-veteran applicants; that is the unemployment insurance claimants, unemployed youth, minorities, economically disadvantaged persons, migrant and seasonal farm workers, and the handicapped and older workers.

With over one million Californians unemployed and the number expected to climb even higher in the next several months, the program that has traditionally provided employment services must drastically reduce the very services which aid job seekers and employers to ameliorate the effects of a faltering economy.

The diversion of Job Service resources to support the Unemployment Insurance program and the concommitant field office staff reduction of 64 percent will force the elimination of employment services in many offices. The Department had 200 local offices throughout the State, 159 of which provided both Job Services and Unemployment Insurance services.

Forty two field offices and service points have already been closed in anticipation of reduced funding allocations.

In urban areas, substantially more service points will be closed and consolidated.

In rural areas, only Unemployment Insurance operations will continue.

The remaining Job Banks in Orange County, San Diego, and San Jose, not closed in the earlier consolidation phase, may be closed.

Distance to service points will increase for most applicants for employment services as our longstanding policy of locating officers geographically throughout the state must be changed.

The Job Service has provided services to employers including taking job orders, screening and referral of job applicants, providing occupational and labor market information, and technical assistance to meet special employer needs.

Outreach to employers will be deemphasized.

Screening of job applicants to meet employers needs will be minimal.

Reduced resources will force concentration on only those job orders which are in demand occupations.

The staff reduction will limit proportionately the number of job orders which can be processed, reducing the available job orders to applicants by as much as a quarter of a million.

The Job Service has provided a range of services to applicants including individualized application review, direct referral to job openings, employment counseling, testing, job development, job search workshops, and referral to other service and training agencies if appropriate.

Direct referral will be substantially reduced and in some areas eliminated.

In fiscal year 1981, 33,800 individuals received employment and vocational counseling. Counseling will be eliminated in some offices and reduced by 60 percent in others.

In fiscal year 1981, almost 18,000 individuals were tested for skills and aptitude and to aid in screening for employers. Testing as well as job development efforts on behalf of applicants will be eliminated.

Group Job Search Workshops will continue to be conducted since they have proved to be an effective means of providing non-individualized job search assistance. Last fiscal year over 110,000 job seekers participated in these workshops.

The Job Service offers a range of services to all categories of job seekers and takes and fills job orders for all types of occupations. The Job Service's ability to aid the less fortunate job seeker as well as the employer has been enhanced by the wide range of occupations, wage levels, and applicants available. Nevertheless, we serve a substantial number of young people, minorities and disadvantaged. In fiscal year 1981, thirty eight percent of individuals placed on jobs were economically disadvantaged, 49 percent were minorities, and 38 percent were youth under age 22. Loss of employment services to these groups will place a larger burden on other social service agencies since those people are less likely to have the resources to secure employment services from the private sector. We registered or renewed applications for work for well over a million job seekers in fiscal year 1981. Staffing reductions may mean that up to a half a million job seekers will find the public employment service unable to meet their needs. As services to employers are reduced, employers may decrease the number of orders they place with the Job Service further reducing available openings to job seekers.

WIN PROGRAM

The purpose of the WIN program is to assist persons receiving Aid to Families with Dependent Children (AFDC) to find permanent unsubsidized employment and ease economic dependence on welfare. Persons who register to receive AFDC are referred to the WIN program, the primary employment service deliverer for welfare recipients. The budget reduction for the WIN program will force us to cut WIN staff by 377 positions, a cut of 47 percent. In fiscal year 1981, over 45,000 WIN registrants found jobs expected to last 30 days or more. This staff cut will reduce the numbers of WIN program participants entering employment by almost 20,000 in fiscal year 1982.

Welfare savings, that is welfare grants not paid because the welfare recipient has gone to work, known as Welfare Grant Reductions (WGR), is a major factor in WIN performance. The increase in WGR in California indicates a high return on investment in the WIN program.

In fiscal year 1981, WGR increased 88 percent to $176.5 million from the fiscal year 1980 level of $93 million.

This savings returned $3.71 to the State in lower welfare spending for every dollar spent in WIN.

Twenty thousand fewer persons entering employment as a result of the 46 percent WIN staff cut will eliminate possible welfare savings of almost $78 million.

The cut in WIN funding of $13.7 million will have the effect of causing $78 million in welfare grants to be paid which may have been avoided.

Staff cuts will require closing WIN offices and reducing the number of WIN counties, now 32 in California.

AFDC registrants in non-WIN counties will not receive WIN services which aid them in finding employment, thus prolonging dependence on welfare.

AFDC registrants, except those exempted, must be registered with WIN to be eligible to receive the welfare grant. A WIN office cannot reduce workload by reducing registrations. With a 47 percent cut in staff, employment services which can be provided in addition to registration will be minimal.

Special services which aid WIN registrants in finding employment such as participation in job search workshops, work experience, institutional training or placement in a public service job will be reduced or eliminated, leaving WIN registrants largely unassisted in their job search efforts and without special services which enhance employability.

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT (CETA) PROGRAM

CETA funds in California were cut drastically in FY 1981 and were cut even more in FY 1982. CETA funding statewide has been reduced in FY 1982 by almost 49 percent, an amount in excess of $285 million.

By using a four to one economic multiplier, it is estimated that the reduction of CETA funding in California will result in losses to the State's total economy of more than $1 billion.

The number of participants that will be served by the CETA system in California in FY 1982 is estimated to be slightly more than 270,000 individuals which is a 30 percent reduction from FY 1981.

Approximately 110,000 needy persons will no longer be able to benefit from CETA services in FY 1982.

In FY 1981, the major cuts were in the Public Service Employment (PSE) programs under Title IID and VI. In California over 32,500 CETA participants lost their jobs in 1981 with the elimination of the PSE program. The elimination of PSE jobs has had and will continue to have far reaching effects on local communities. The job reductions will foster increased reliance on food stamp and other public assistance payments, and contribute to loss of tax revenues and reduced demand for goods and services in the private sector.

Cuts in PSE also had a particularly adverse effect on the communities that relied on the services provided by the PSE participants who were laid off.

PSE workers were employed by agencies and organizations such as schools, state and local governments, hospitals, social service agencies, and community based organizations.

PSE participants provided such diverse services as health aid, including assistance to combat drug abuse and alcoholism; child care; family counseling; assistance for disabled persons and senior citizens; and home repair and weatherization for the needy.

Communities and organizations that lack the resources to continue the kinds of services that had been provided by the PSE participants have been especially hard hit.

Funding for the California CETA Governor's Special Grant has decreased by almost 42 percent from FY 1981 to FY 1982. Governor's Grant monies are intended primarily for demonstration type programs and are not used to replace local program-funding. The drastic funding reductions in CETA throughout the State has resulted in intense competition for the Governor's Grant to fund programs throughout the State. Only $13 million was available to fund new programs for FY 1982 and the remainder were denied an opportunity to participate.

Funds for CETA Title IV job and training activities for youth were reduced by almost one third from FY 1981 to FY 1982. Various programs conducted under Title IV had nearly 150 thousand youth participants in FY 1981.

The funding cuts will reduce the participants by over thirty thousand economically disadvantaged youth.

Services which aid youth to find and hold a job such as counseling, transportation, and supportive services provided under the Youth Employment and Training Program in Title IV, cut by 70 percent, are unlikely to be available from other sources, decreasing the chances of successful labor market entry for youth.

Title VIII, the Young Adult Conservation Corps, has been eliminated and the benefits to corpsmembers and California conservation efforts lost.

Budget reductions in all CETA titles in FY 1982 have forced many community based organizations to close. In addition, Prime Sponsors have reduced staff and curtailed employment and training services previously available.

STATEMENT BY WILSON RILES, CALIFORNIA STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

If all of the Administration's reported proposals are enacted, we will see by the 1983-84 school year a reduction of 41 percent in federal financial assistance to elementary and secondary education over a two-year period. What this means in California is:

Elimination of funding to pay the salaries for more than 14,000 instructional personnel.

Reduction of services by about one-half for all 2 million children eligible to receive federal assistance, or elimination of services to more than 300,000 children.

Specifically, compared to the 1980-81 school year, we have on the average received approximately 12 percent less in federal financial assistance for education in the current school year.

For the 1982-83 school year, the current continuing resolution would further reduce federal education assistance by an average of 4 percent.

Thus, we know for certain that we will be receiving at least 16 percent less federal funds in the 1982-83 school year than we received in the 1980-81 school year.

In addition, it has been reported that the Administration will ask for rescissions which would make further reductions in federal educational assistance in that school year (1982-83)—a reduction of an average 10 percent which would add up to a 26 percent reduction as compared to 1980-81.

Finally, it has been reported that the Administration will seek further reductions in school year 1983-84 of 15 percent—a 41% total cut as compared to 80-81.

I do not believe we can sustain such losses and continue to provide quality education for our children. It is clear to me that this assault on federal support for education must be countered by a concerted and united effort involving all aspects of the educational community—elementary, secondary, postsecondary, public and private.

The Administration clearly intends to change federal education policy affecting the magnitude of the federal contribution to education, the nature of federal intervention and the structure of the federal agency, the U.S. Department of Education. It is not clear whether—or to what extent—the Congress will concur with the Administration's proposals.

I have personally asked the President to lead the way in developing a national consensus about the role of the federal government in education—specifically, to define what the federal role is and, perhaps even more important, what it is not.

In my recent meeting with President Reagan, I also stressed the need for the Administration to seriously—and soon—address the growing problem of unemployed youth.

REFUGEE EDUCATION FUNDING

In 1981, $44 million was appropriated for refugee education programs and earmarked for distribution in this (1981-82) school year. This money was appropriated to the Department of Health and Human Services (HHS), which passes the money on to the Department of Education under an interagency agreement.

We understand that HHS has decided to release only $21 million of the appropriation, and to ask for reprogramming of the rest of the money so that HHS can use it for refugee resettlement and other HHS programs.

An additional $19 or so million would be distributed in school year 1982-83, according to present plans.

This current year cut will be a deep cut in refugee education money (more than 50 percent) but HHS is not making comparable cuts in its own refugee programs—health, welfare, etc. These are only being cut 5 percent to 8 percent, we understand.

California public schools currently serve more than 55,000 refugee children. The $44 million level would have provided about $6 per child, or some $33 million for California. The $21 million would provide a little less than half of that amount, resulting in a loss to California schools of about $16 million in this current school year.

POSSIBLE LOSSES TO CALIFORNIA

In compensatory education for disadvantaged students (Title I of the Elementary and Secondary Education Act), about 1,000,000 California children are eligible to receive special services, but because of inadequate funding the services are currently provided to 850,000 children. If the Administration's budget is enacted, 234,000 of these disadvantaged children could be denied services.

California has currently identified more than 100,000 children from migrant families in the state. Of these, about 90,000 receive additional services because they are low-achievers. We estimate that next year there will be more than 120,000 such children. Although funding for migrant education was increased approximately 9 percent from 1980-81 to 1981-82, the increase is not enough to provide additional services to needy migrant children. If the Administration's budget reductions for school year 1983-84 are approved, nearly 25,000 of these children will be denied services.

More than 350,000 children in California receive additional special educational services due to handicapping conditions. Federal support for these programs would be significantly diminished if the Administration's proposal is enacted, and as many as 7,000 California children could be denied this urgently needed federal support.

Federal assistance for our programs in vocational education has become increasingly important (because of Propositions 13 and 4) since it provides money which local educational agencies use in upgrading obsolete equipment and in buying new equipment so as to furnish vocational training for personnel entering new and emerging industries. The proposed federal cuts would significantly hamper these necessary expenditures, which are necessary to keep vocational training in tune with the current needs of our industries.

As of spring of this year, California schools had identified more than 325,000 children as being limited- or non-English proficient. The U.S. Supreme Court has ruled that schools must provide such children equal access to the programs offered by schools. The restrictions in the Administration's budget would mean that as many as 72,000 of these children would not receive federal funds to assist in their education.

The above indicate the magnitude of the effects of these cuts upon children who are in need. An equally serious problem confronting schools will be in the numbers of staff, teachers and aides who would no longer receive federal funds to pay their salaries and benefits. The following represents a statewide estimate of how many individuals could be laid off or dismissed if the federal cuts are approved:

At least 9,333 teachers and teacher aides would not receive federal funds to provide compensatory education services to disadvantaged children.

Approximately 1,100 teachers and teacher aides now providing educations services to children from migrant families would no longer receive funding.

In special education, teachers and aides providing services to handicapped children could be reduced by as many as 1,100.

Teachers and aides providing services to limited- and non-English proficient children would lose funds which have supported at least 1,736 such individuals.

BLOCK GRANT [1]

1. Title XX Social Services Programs

This block grant was one of the two authorized for assumption during the current year, because (1) the programs contained within it have for several years been wholly administered through the State budget and, therefore, would involve no new activities for decision, (2) these programs are also substantially funded by the General Fund, (3) it did provide for flexibility which would allow the State to make priority decisions in making the reductions which would not have been the case if the Federal Government had administered it and have been required to make prorata reductions, and (4) by assuming both this and the LIHEAP block grant 10 percent of the LIHEAP funds could be and were transferred to this block grant.

Funds contained in this block grant are for services directed at the national goals of (1) achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency, (2) achieving or maintaining self-sufficiency, including reduction or prevention of dependency; (3) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reuniting adults unable to protect their own interests, or preserving, rehabilitating or reuniting families; (4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and (5) securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions. Clients served under both children's and adults' programs are those in danger of abuse, neglect or exploitation. Eligibility for some programs is determined on the basis of either status eligible (AFDC of SSI/SSP—which include aged, blind and disabled) or income eligible. Providers of service are the county welfare departments, with the exception of individually hired providers and a few third-party contracts for the provision of In-Home Supportive Services (IHSS) and, in unique situations, portions of mandated and optional Other County Social Services (OCSS) programs.

Programs contained in this block grant are also funded by some $122 million of State General Funds in 1981–82. The reduction of Federal funds for these programs was about $57 million in 1981–82 and an additional $11 million in 1982–83. These reductions are somewhat offset by the transfer of $8 million in LIHEAP in both years and $5.4 million of one-time Title IV-B Federal funds available in 1981–82. In addition, $13 million of additional General Funds are proposed in 1982–83 for the IHSS portion of this program to support anticipated increased caseload. Nevertheless, this reduction has significant impact on these program areas. This impact was met as follows:

a. In order to enable counties to continue to provide the highest possible level of service following the funding reduction, the Department of Social Services made two major changes in the OCSS portion of this block grant.
    (1) Regulations were revised to eliminate the mandate that counties provide the following four types of Title XX services: Employment-related, Health-related, Child Day Care Case Management, and Family Planning, and to delete detailed program content requirements for several other mandated services.
    (2) The funding for four programs—OCSS, 24-hour Emergency Response, Child Welfare Services, and County Services Staff Development—was combined in order to simplify claiming and provide counties with greater flexibility to use available funds for local services priorities.

b. Chapter 69, Statutes of 1981 (SB 633) provided direction to the Department of Social Services and county welfare departments on the order in which services were to be eliminated if IHSS program reductions were needed. These are:

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1. Governor's Budget 1982-83

(1) Reduction in the frequency with which non-essential services are provided.
(2) Elimination of non-essential service categories.
(3) Termination or denial of eligibility to persons requiring only domestic services.
(4) Termination or denial of eligibility to persons who, in the absence of services, would not require placement in a medical out-of-home care facility.
(5) Per capital reduction in the cost of services authorized.

Counties have prepared plans, as required by Chapter 69, to reduce services in accordance with these priorities in order to stay within their allocations.

The Budget Act of 1981 appropriated Federal funds for training for county welfare staff, foster parents and child care providers. As a result of the Federal budget reductions, beginning October 1, 1981, funds were allocated only for the continuation of stipends for the remainder of the school year to county welfare staff pursuing MSW degrees.

Title	*1981–82 Planned Before Federal Reductions*	*1981–82 Adjustment*	*1981–82 Adjustment State Only Share*	*1982–83 Proposed*	*1982–83 Admin. $*	*% of Total*
Title XX [1]	$322,754	$265,302	$265,302	$254,555	$9,378	N.A.

[1] Only block grants accepted by California in 1981–82. Remainder continued to be administered as categorical programs by Federal Government until California takes over as block grants on October 1, 1982.

2. Low Income Home Energy Assistance Program (LIHEAP)

Besides Title XX, this was the only other block grant assumed in 1981–82. Like Title XX, the activities under this program had previously been completely administered though the State budget and the grant was essentially the same as the previous categorical programs contained within it. In addition assumption of both this and the Title XX block grants enabled the transfer of 10 percent or about $8 million from this $80 million block grant to the Title XX grant programs. While the funding for the block grant is essentially the same as projected before the Federal revisions, there are considerably less funds available for the basic purposes than in prior years. This is because (1) the transfer of funds to Title XX, and (2) the inclusion of two programs, Weatherization and Energy Crisis Intervention at about $5 million each for both years, which had previously been funded as separate categorical programs.

The primary objective of the LIHEAP Program is to provide financial assistance to low-income persons to help them meet the increasing costs of home energy and by providing other direct assistance to meet emergency situations which are energy related through an energy crisis intervention program. A weatherization component also is included which will result in energy conservation and long-term savings to California low-income residents. Households whose income are at or below 130 percent of the March 1981 Office of Management and Budget (OMB) poverty guidelines will be eligible for direct financial assistance through this grant. Payments will be made directly by OEO. Community Action agencies and community-based organizations will be providing the energy crisis and weatherization services through subgrants from OEO.

Administrative activities for this program include: review and verification of applications, data processing activities to compile data for payment issuance, reviewing proposals, writing and monitoring subgrants for energy crisis assistance and weatherization components, fair hearing process, and hiring of temporary personnel and business services and accounting activities in support of the program. Subgrantees will also be receiving administrative funds to administer the energy crisis assistance and weatherization components. In addition to basic administration, direct support services will be provided to assure that eligible persons are identified and served.

Title	*1981–82 Planned Before Federal Reductions*	*1981–82 Adjustment*	*1981–82 Adjustment State Only Share*	*1982–83 Proposed*	*1982–83 Admin. $*	*% of Total*
Low Income Energy Assistance [1]	80,883	80,640	80,640	80,640	4,536	5.6%

[1] Only block grants accepted by California in 1981–82. Remainder continued to be administered as categorical programs by Federal Government until California takes over as block grants on October 1, 1982.

3. Alcohol and Drug Abuse Services

This block grant is actually part of an Alcohol, Drug Abuse and Mental Health block grant but is discussed separately because this block grant is divided between the Departments of Alcohol and Drug Programs and Mental Health. The block grant covers Alcohol and Drug programs that are administered through the Department as well as programs going directly from the Federal Government to local entities which will now be administered by the State. This represents a trend that has been occurring over the past several years in this program.

The programs containing block grant funding involve the Alcohol Program and the Drug Program which are found on pages HW 28 through HW 32, respectively, in the Governor's Budget for FY 1982–83.

The Department presently administers alcohol programs funded from two primary sources—State General Funds and Federal Hughes Formula Grant funds. These funds are allocated and subvented to counties through a single mechanism called the Alcohol Services Reporting System (ASRS).

The Federal block grant affects alcohol programs because it consolidates and incorporates the Hughes monies, formerly authorized for Alcohol programs, into the block grant. In addition, the block grant also includes monies authorized under the Hughes Act which the National Institute on Alcohol Abuse and Alcoholism (NIAAA) presently uses to fund projects directly in California. While these direct projects are not presently administered by the Department, the Department proposes to assume administrative responsibility for the projects and funds during the 1982 fiscal year.

It is the Department's plan to administer the NIAAA project funds through the existing ASRS subvention system, which is currently used to subvent the General Fund and Federal Hughes dollars to the counties. The administration of the direct project funds through this system will provide for the orderly transition of these projects to the block grant and will result in the most cost-effective administration system for all alcohol abuse funding.

The Department presently administers drug programs funded from four primary sources—State General Funds, Federal 409 Formula Grant funds, federal Section 410 treatment funds, and Federal prevention and education funds (SPCP). The funds are distributed to the local level using two mechanisms: subvention and contracting. The State General Funds and the Section 409 funds are allocated and subvented to the counties using the Short-Doyle Cost Reporting/Data Collection (CR/DC) subvention system. The Federal 410 and SPCP monies are Contracted to counties and local providers of service.

The Federal block grant affects drug programs because it consolidates and incorporates the Section 409, Section 410, SPCP monies, formerly authorized for drug programs, into the block grant. Assumption of the block grant will enable the Department to eliminate the restrictive and costly categorical grant requirements associated with these grants, and to implement a single subvention system. The benefits of using a single subvention system are:

—A single system of payment and reporting for drug abuse funding at the State, county and provider level will streamline the administration of drug programs. Presently, drug programs are administered through a contracting, system and the CR/DC system. This requires separate claims processing, accounting, and administrative reporting requirements. The elimination of this dual system, and the above requirements, will result in the most cost-effective administrative system for all drug abuse funds.

The block grant will also include monies for prevention and education which the National Institute on Drug Abuse (NIDA) presently uses to fund projects directly in California. While these direct projects are not presently administered by the Department, the Department proposes to assume administrative responsibility for the projects during the 1982 fiscal year.

While inclusion of the NIDA direct projects and funds within the block grant will increase the administrative responsibility of ADP, the workload impact of assuming these six projects will be minimal and has been incorporated into the proposed, reduced staffing level for the Drug Program under the block grant.

It is the Department's plan to administer the NIDA project funds through the existing CR/DC subvention system, which is currently used to subvent the General Fund and Federal 409 dollars to the counties. The administration of the direct project funds through this system will provide for the orderly transition of these projects to the block grant and will result in the most cost effective administration system for all drug abuse funding.

The net impact on the Department of implementing the block grant will be the reduction of seven positions from the existing program authorized for FY 1981–82. The proposed changes to the Department's current operations will occur through the use of a single subvention system for the administration of block grant funds, together with State General Funds, for both the Alcohol Program and the Drug Program. These systems (ASRS and CR/DC) will result in the streamlining of current administrative systems for both programs.

The increased administrative responsibilities in assuming the NIAAA direct projects will be provided for through increased staffing within the Alcohol Program. Due to the minimal workload increase involved in assuming administrative responsibility for the NIDA direct projects, the Drug Program will experience no increase in staff, and as a result of the elimination of categorical grant requirements, proposes to reduce its staffing level.

Title	1981–82 Planned Before Federal Reductions	1981–82 Adjustment	1981–82 Adjustment State Only Share	1982–83 Proposed	1982–83 Admin. $	% of Total
Alcohol and Drug[8]	34,000	39,554	30,854	32,737	2,577	7.9%

4. Mental Health—Community Mental Health Centers

This is the portion of the Alcohol, Drug and Mental Health Services block grant which will be administered by the Department of Mental Health (DMH) as of October 1, 1982. Prior to the assumption by DMH, these grants were made directly to Community Mental Health Centers by the Federal Government.

Community Mental Health Centers grants are awarded in five categories: Initial Operation, Financial Distress, Consultation and Education, Staffing and Part F Staffing. Centers serve people within federally designated catchment areas with a comprehensive range of services. The requirements of this block grant include provisions that funds be used to continue to support eligible centers.

The block grant allows up to 10 percent to be used by the Department for administration which would include evaluation and approval of grants, program monitoring and evaluation of services and fiscal management. Details of the level proposed for administration and operation of this program will be provided prior to legislative hearings on this budget item.

Title	1981–82 Planned Before Federal Reductions	1981–82 Adjustment	1981–82 Adjustment State Only Share	1982–83 Proposed	1982–83 Admin. $	% of Total
Mental Health[8]	18,044	17,876	-	14,280	1,428	10.0%

5. Community Services

This block grant encompasses funds that had previously been furnished to Community Services Agencies directly by the Federal Government. The Office of Economic Opportunity will assume responsibility for administering this block grant on October 1, 1982.

The principal objective of the community services programs is to provide a wide range of activities designed to assist low-income persons to: secure and retain meaningful employment; attain an adequate education; make better use of available income; obtain and maintain adequate housing and a suitable living environment; remove obstacles and solve problems which block the achievement of self-sufficiency; achieve greater participation in the affairs of the community; and provide emergency assistance to meet immediate and urgency need. The Office proposes that all 58 counties in California and the low-income populations within them will be served equitably through the use of an allocation formula based on the number of low-income persons in the county.

Subgrants to community agencies will be based on a request for proposal process to insure fairness of competition in applying for funds. Award criteria will be developed based on the greatest needs of the low-income population, and the capability of the applicants to have major impact on the cause and conditions of poverty.

Administrative activities equal to 5 percent of the total program are budgeted for the OEO. These administrative funds will be used to establish subgrant award and program monitoring processes and personnel, accounting and business services activities to support the program.

Title	1981–82 Planned Before Federal Reductions	1981–82 Adjustment	1981–82 Adjustment State Only Share	1982–83 Proposed	1982–83 Admin. $	% of Total
Community Services Agency	32,830	32,830	-	31,536	1,577	5.0%

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[8] Two parts of the Alcohol, Drug and Mental Health block grants are shown separately since they are to be administered by separate departments.

[9] Prior to DHS assuming this block grant, these programs were allocated directly between the Federal Government and local entities.

6. Maternal and Child Health Block Grant

The Maternal and Child Health (MCH) block grant consists of eight programs, three of which are new to State administration. The Department of Health Services will assume the block grant on October 1, 1982. The MCH block grant is intended to provide funds for health services to mothers and children to reduce infant mortality, the incidence of preventable diseases and handicapping conditions among children, rehabilitative services for blind and disabled individuals under the age of 16, and treatment and care for crippled children. The populations served by this block grant are categorical groups of persons with special needs.

The program included in the block grant are:

a. *Genetic Diseases*—genetic testing and counseling programs.
b. *SSI—Disabled Children's Program*—assistance in obtaining medical and other services to families with a disabled child.
c. *Sudden Infant Death Syndrome Information and Counseling (SIDS)*—counseling and information services.
d. *Crippled Children's Services*—medical and related services to handicapped children.
e. *Maternal and Child Health Services (MCH)*—services to reduce infant mortality, improve the health of mothers and children and reduce the incidence of handicapping conditions associated with childbearing.
f. *Childhood Lead-Based Paint Poisoning Prevention*—lead-based paint poisoning prevention program.*
g. *Comprehensive Hemophilia Diagnostic and Treatment Centers*—ambulatory diagnostic and treatment centers for persons with hemophilia.*
h. *Adolescent Pregnancy and Services*—community-based health, education, and social services for adolescents at risk of unintended pregnancy, for pregnant adolescents, and for adolescent parents.*

Certain restrictions have been placed on the use of funds within the MCH block grant including:

- MCH block grant funds are not transferable to other block grants.
- States must match three dollars for every four Federal dollars.
- Fifteen percent of the nationwide block grant funds will be set aside in Federal Fiscal Year 1982 in discretionary funds for the Secretary of the Department of Health and Human Services to fund programs of national significance.

Title	*1981–82 Planned Base Federal Reductions*	*1981–82 Adjustment*	*1981–82 Adjustment State Only Share*	*1982–83 Proposed*	*1982–83 Admin. $*	*% of Total*
Maternal and Child Health	23,515	21,336	17,526	21,336	582	3.3%

7. Preventive Health and Health Services Block Grant

The Preventive Health and Health Services Block Grant which DHS will assume October 1, 1982 consists of eight programs, three of which will be new to DHS administration. The Preventive Health Block Grant is intended to provide funds for a variety of public health services to reduce preventable morbidity and mortality and improve the quality of life.

The programs included in the block are:

a. *Urban Rat Control*—demonstration programs for eliminating rat problems.
b. *Hypertension Program*—screening, detection, diagnosis, prevention and referral for treatment of prescribed for hypertension.
c. *Health Incentive Grants for Comprehensive Public Health Services*—assist in meeting the cost of providing public health services.
d. *Health Education-Risk Reduction*—coordinate and evaluate education programs which emphasize personal choice and reducing health risks.
e. *Flouridation Grants*—promoting, implementing and maintaining flouridated water systems.
f. *Rape Prevention and Crisis Services*—services to rape victims and rape prevention programs.*
g. *Home Health Services and Training Grant Program*—training of para-professional and professional personnel in home health services.*
h. *Emergency Medical Services*—development of area wide emergency medical services. Funding for the portion of this block grant is shown in and appropriated to the Office of Emergency Medical Services.*

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* Prior to DHS assuming block grant, these programs were allocated directly between the Federal Government and local entities.

The population served are those in areas identified as high risk, usually low-income and minority groups most in need of the various prevention services. The population falls into two broad categories:

- Areas of communities with special needs (i.e., rat control).
- Categorical groups of people with special needs (i.e., rape victims).

Certain restrictions have been placed on the use of funds within the Preventive Health Block Grant, including:

- A 7 percent limit on the transfer of funds to the other health blocks grant.
- A 10 percent limit on indirect costs.
- In Federal Fiscal Year 1982, hypertension programs must be funded at 75 percent of the Federal FY 1981 allocation.
- $3 million of the total national appropriation must be set aside for rape crisis centers.

Title	*1981–82 Planned Before Federal Reductions*	*1981–82 Adjustment*	*1981–82 Adjustment State Only Share*	*1982–83 Proposed*	*1982–83 Admin. $*	*% of Total*
Preventive Health	7,160	6,724	4,539	6,829	211	4.6%

8. Community Development

Title I of the Housing and Community Development Act of 1974 consolidated nine categorical housing and community development programs into one Community Development Block Grant (CDBG). The portion of the CDBG program which is transitioned to the States provides grant for housing and community and economic development to small cities and counties. Such grants are typically used for housing rehabilitation and development and the installation of infrastructure. Housing and Community Development will be assuming this grant on October 1, 1982.

The Department proposes to make grants to cities and counties based upon competitive evaluation and ranking of applications proposing a program of local housing, community development, or economic development activities. Small cities programs will be added as a new unit to the existing Remote Rural Demonstration Unit.

Program administration will include the selection of grantees, the award of grant funds and disbursements, and the monitoring and evaluation of local program accomplishments.

Title	*1981–82 Planned Before Federal Reductions*	*1981–82 Adjustment*	*1981–82 Adjustment State Only Share*	*1982–83 Proposed*	*1982–83 Admin. $*	*% of Total*
Housing and Community Development	27,000	23,000	-	23,000	542 (205 GF)	2.4%

9. State Educational Block Grant

Pursuant to the Education Consolidation and Improvement Act of 1981, as of July 1, 1982, approximately 29 Federal categorical programs will be consolidated into a new Federal block grant. Funds for the new block grant will be allocated to States on the basis of each State's share of the school age population. Out of the funds received by each State, the State Education Agency may retain up to 20 percent for projects which are authorized under the Act and for State administration. The remainder, which must be at least 80 percent of the State's grant, is to be allocated to Local Education Agencies on the basis of a formula which uses enrollment as its primary factor. In general, funds appropriated under the Act may be used for any of the purposes which were formerly authorized by the programs now included in the block grant. The enabling legislation also creates a State advisory committee which is appointed by the Governor and charged with advising the State Educational Agency on: the percentage and use of funds retained for State use, and the formula for distributing the remaining allocation to Local Education Agencies.

The population to be served, either directly or indirectly, by the new block grant are elementary and secondary education students (including preschool) attending both public and private schools. This is the same population which was served by the 29 programs which were combined to form the educational block grant.

In the past, the target population has been served by these programs through a wide variety of agencies and institutions including public schools (grades K–12), private non-profit schools (grades K–12), and county offices of education. In addition, institutions of higher education and other public, as well as private non-profit, organizations have received funds for projects and programs designed to meet the needs of the target populations. It is anticipated that many of these entities will continue to receive some level of support in the future.

The State Educational Agency has a number of administrative responsibilities under the new Block Grant legislation including: involvement in the development of an entitlement formula; distribution of formula entitlement funds to LEAs; administration of programs operated at the State level; submission of a State application for funding to the Secretary of Education dissemination of information; evaluation of the effectiveness of funded programs, maintenance of appropriate records; and performing fiscal audits.

The Department is currently working on the integration of these new activities into ongoing operations. However, this task cannot be completed until various aspects of the new law are clarified. Specific details of how the Department proposes to allocate these administrative funds will be determined after input and advice is received from the Advisory Committee appointed by the Governor. These specific proposals will be available before or during legislative hearings.

Title	1981–82 Planned Before Federal Reductions	1981–82 Adjustment	1981–82 Adjustment State Only Share	1982–83 Proposed	1982–83 Admin. $	% of Total
Education*	65,046	65,046	41,959	42,000	8,400	20.0%

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* Begins as block grant on October 1, 1982. Continues as categorical program until then.

Governor Brown. We submitted them to someone's office, whose name I will not mention, last night at 8 o'clock.

Anyway, that lays out the materials in detail, and I would like to go beyond that and make a very brief statement and then respond to your questions.

My fundamental objection to President Reagan's economic policies is that they make the working poor our chief inflation fighters. Some claim that the loss of one-and-a-half billion dollars to California through Federal budget cuts will be offset by the infusion of tax reductions and the dollars that that will pour into our State. But the harsh reality, we in California, and New York and in other States are now suffering an income transfer from the working poor to the working rich and to the nonworking rich.

I have already submitted to you the report which will outline in detail the impact of these massive Federal cuts in Califonria.

Allow me for a few minutes to highlight the damage, devastation that will be suffered by individuals working to get on their feet again, people in entry level jobs, the minimum wage earners of this State.

Here are just some of the cutbacks. The loss of 32,000 entry level jobs in public service, jobs that help those at the bottom level of our economy climb out of poverty.

Second, the elimination of 122,000 persons from AFDC and reduced benefits to another 330,00 out of 1.5 million recipients.

Third, a 64-percent reduction in employment service staff for the State's employment development department, a reduction that will deny valuable job services to more than one-half million job seekers in the State.

Next, a cut of 20,000 people from the WIC which was established during the Presidency of President Nixon and the Governorship of Ronald Reagan which last year resulted in 45,000 individuals on welfare-finding jobs.

Elimination of unemployment benefits for some 27,000 people leaving military service and a reduction or delay in rehabilitation services for 7,500 blind, deaf, or disabled persons, and a reduction or elimination of inhome supportive services to approximately 15,000 aged, blind and disabled people who wish to live with dignity independently and remain outside of nursing homes.

Those are the highlights, and the overall context is that in our Nation at a time when we need national unity more than ever before, we are experiencing a growing division because of this transfer of wealth from the working poor to the working rich and the nonworking rich, and that in my judgment is the most devastating impact of all.

At a time when we are suffering from an onslaught of foreign imports and slowdown of productivity, we need the political will to make us more competitive and meet our own domestic needs, and that requires a national unit and a deep and abiding respect for our national institutions, and in that context, the specter of inequity and unfairness which is becoming pervasive under Reaganomics. That is where it will have its greatest damage of all.

I will be glad to answer questions.

Mr. PICKLE. We appreciate your statement and appreciate your brevity, too.

We will proceed in order. The Chair will ask the Members to have your questions limited, and the time will be limited. We will abide strictly by the 5-minute rule because we have many witnesses here today.

Again, we want to thank you.

Governor, I think at this time in order that all of us may know, let me take occasion to recognize the Members, Congressman Rangel of New York, Congressman Gephardt of Missouri, Congressman Hance of Texas, Congressman Downey of New York, and your own very able, congenial Congressman Matsui, and it is such a pleasure to have you.

Is John Moss here this morning? It is so good to have a silent John Moss with us, but he was a great Member of Congress.

Congressman Bailey from Pennsylvania, and Congressman Rousselot, another retiring gentleman from California, I mean, expressive gentleman from California, and Congressman Martin of North Carolina, and Congressman Anthony of Arkansas, and the next gentleman, Mr. Chappie, and Congressman Dymally.

We are pleased to be here today.

Governor, my State and all States have had to make reductions in spending, even before the Federal budget cuts have taken effect. Obviously the Federal cuts will place even more stress on financial and administrative resources.

How does the State intend to cope with these cuts? Will the State be able to absorb additional cuts in Federal spending proposed by the administration? What specific programs and services will be affected and by summation, is the tax cut working?

How does the Reagan program affect your State? The President had his way now in spending and in tax cuts and in charting our course with respect to the budget. So, in the broad sense, how is your State coping with these changes?

Governor BROWN. In the broad sense, many people in California are doing reasonably well, because the Reagan cuts are directed at some very specific people, those who are struggling to get on their feet, to climb out of poverty, to stay outside of the nursing home, to remain independent in the face of disabilities of one kind or another.

There are those that are trying to improve their education, their skills so they can be more valuable citizens of the communities. Those are the ones that are hurt most specifically and the best example might be, the cutbacks in title XX.

We suffered serious cutbacks and we were able to make up some of them but, it will result in 15,000 elderly or disabled people either being cut off or having their services reduced, and that increases the risk of those people having to go to a nursing home, and that in itself often can be a factor in shortening their lives.

As far as the AFDC roles, the elimination of 122,000 persons from those roles hits what we could best call the working poor, the people who have a job, the minimum wage jobs, the people who are doing the dishes, the laundry, the garment industry, picking the crops, the people who are the unrecognized heroes in this American economy who do not have a lobby, a labor union, who are not generally recognized in the corridors of power.

These people were cut off the rolls, maybe who make $450 a month and got a supplement from the AFDC program and because they do not fall within this tight definition of the truly needy, they are the ones who have had their assistance cut off and they may well be forced into going back on the welfare rolls, so you can cite any number of individual examples, and I do not see that that is going to be compensated for by the tax cut, either the one that has occurred or the one that is coming up.

The rising interest rates indicate that, the discouragement of small businesses which has had its bankruptcies increase by more than 40 percent, devastating housing and auto industries, this has created a sense of people getting a raw deal, not a fair deal, not a new deal, and I do not believe the American people voted to have Government withdraw from an active role in assuring prosperity for the American people.

In fact, I believe that the President campaigned on a platform of returning prosperity to the Nation and the means that he has chosen are means that have been discredited since the time of Herbert Hoover.

It is a classic economic doctrine that the public sector lacks a significant role in the formation of wealth and economic prosperity and I do not believe that 85 percent of the American people agree with that; 100 percent of the people agree we want prosperity and we want us to grow but the means that have been chosen in the last 12 months are not attaining it.

Mr. PICKLE. We must accept the fact, Governor, that the trend of spending at least is going away from the Federal Government, back toward the State.

You had a $40 billion spending cut this year and the President may well recommend another $30 billion for this coming year. Now, whatever level we arrive at, the fact is that the States are going to be getting less money from the Federal Government.

How does the State handle that? You are going to have less money. Do you have the prerogative of raising taxes, of finding funds from private sources? How do you handle it? My State is in a relatively good condition from an economic standpoint and yet the cuts are hurting our State, and we got to change directions.

How does a State cope with that?

Governor **Brown**. The States are going to have to cut back. The localities are cutting back, and they are cutting back in areas that are going to be quite painful, services of medical care to those who are most in need, police and fire services.

We are cutting back in the educational services, training, and whether or not there will be new revenues or new taxes, only time will tell, but it is merely a shell game if we are going to see a shift in taxes from the Federal to the State to the local level, that will not accomplish the purpose of giving more to the private sector. And as a matter of fact, it will make the States compete with one another.

The devastating impact of shifting back to the States the tax burden will be to make the States compete among themselves in their ravaging of the public sector to attract business interests, and each State will then compete to slash its own tax capacity in order to attract business, and that will mean diminishing infrastructure, capital improvement, schools, and in general, a weakening of the fiber and social cohesion in the community. So while it may sound good to shift back to the local level, it turns the States into a group of dependent colonies begging for crumbs from the larger economic aggregates that will deign to set up shop in their depressed areas.

It is a very bad idea, and this is one Nation committed to building up the entire country and not having the States put upon in this very damaging competitive way.

Mr. **Pickle**. Thank you, Governor.

The Chair recognizes Mr. Rangel.

Mr. **Rangel**. Governor, it is abundantly clear that the President of the United States believes that the problems of the sick, the aged and the poor are local and State problems.

As this committee went around the Nation, the Governors told us they do not believe the private sector and State governments have the ability to fill the gaps.

We are talking about people that had nothing to do with how the Constitution was set up. We have gone to community health centers. It is just not a political question but a question of life and death.

You believe this shortfall cannot be made up by the great State of California, and are one that is familiar with the national scene. Where do we go from here? We cannot go to our large nontaxpaying corporations and tell them that they have the responsibility.

The President came to the great State of New York and challenged the religious institutions for each church to adopt families, and our religious leaders were not eager to accept that responsibility. Now, we have old folks and sick people, and as a national leader, as well as the Governor of California, if you do not believe that the State legislature in your office can fill the gap, and if you sincerely believe that the President is coming back in February to cut deeper, what direction do we go?

Governor **Brown**. Well, I would say that history tends to repeat itself and when our President was Governor of California, he campaigned on a program to cut government and reduce taxes and during this period, government grew at an annual rate of 14 percent and we had three large tax increases and the corporation tax was doubled, and the personal income tax was dramatically increased and the sales tax was increased by 40 percent, not to mention a series of other taxes.

The number of State employees was increased by 50,000 so I would predict that very soon a tax program will emanate from the White House but instead of taxing those who are most able to pay, it will start at the bottom in a bubble-up approach that will tax first the beer drinkers and then the cigarette smokers and then the folks who like to imbibe in booze and other forms of consumption that will serve as the substitute financing for all the gigantic tax breaks that have now been unloaded on the more advantaged sectors in our economy.

In addition to that, the cutbacks where they cannot be physically sustained, for example, in the elderly who cannot stop their aging process, or the sick who cannot cure their diseases or the educators who must continue their jobs of educating, then the burden will trickle down to the States and the localities because we will not let California go down the drain.

We are under worldwide competition and the Japanese are challenging our electronics industry in the same way they have challenged the auto industry, the steel and television industry, and many other industries before.

We have to upgrade our schools, increase our training and retraining programs. Whether we will do it in time or whether it will take us 3 years or whatever, that remains an open question, but we cannot go back. We cannot sink into mediocrity or into a second-rate society. We have to compete and they are not playing by the rules of Adam Smith.

They have targeted our finest industries for reduction, diminution and devastation and we are going to fight back with every tool that we are able to find, and if the Federal Government wants to abandon the economic struggle, we will have to go it alone or replace those in the Federal Government who are reducing the competitiveness in America.

Mr. RANGEL. Should I return to Washington knowing that the people in the soverign State of California and the private sector and the churches are prepared to assume the responsibility?

Governor BROWN. We are prepared to change the philosophy that presently reigns in Washington that is making it unable for us to meet our responsibilities.

Mr. RANGEL. So the poor should wait.

Governor BROWN. Now, but as a matter of fact, the working poor have been chosen as the chief inflation fighters and as the discouraging rate increases, then, sure the inflation rate will come down, but the price is going to be social disunity which will make it very difficult to govern and rebuild the economy in the way that everyone wants.

Mr. PICKLE. I will turn you over to Congressman Rousselot.

Mr. ROUSSELOT. I am not sure he wants it.

Thank you, Mr. Chairman.

Governor, I was fascinated by the specifics of places where you mentioned you have been forced to reduce in your statement or the package that we just received.

I know you have budget problems here in California with your own budget, and it was unsound in June because it put us in the position in the State, how are we going to meet those costs. You have been an advocate in trying to reduce the unwarranted costs in medicare. There is a medical cost overrun of $185 million.

I was interested in your statement about the elimination of 122,000 persons from AFDC. As you know, this committee under then-Chairman Corman changed the law in 1980 to try to eliminate from the AFDC program people that should not be eligible for that.

Of the 122,000 people eliminated from AFDC or reduced benefits that you mentioned, how many of those were the result of the law that we passed in 1980 in Congress?

Governor BROWN. I would say all——

Mr. ROUSSELOT. The Democratic Congress. They still run the House of Representatives, you understand.

Governor BROWN. I am advised that the 122,000 were all as a result of the Reconciliation Act.

Mr. ROUSSELOT. None of them is a result of the act we passed in 1980.

Now, on the loss of 32,000 entry level jobs in public service, are you talking primarily of CETA?

Governor BROWN. Yes.

Mr. ROUSSELOT. How many of those slots were actually filled?

Of the 300,000 nationally that were reduced in the reconciliation bill, many of those were not actually filled at the time.

How many of yours, the 32,000?

Governor BROWN. I do not have an exact number, but I would suspect with the rising unemployment and the cutbacks in local government which have been occurring for the past 3 years——

Mr. ROUSSELOT. Because of proposition 13.

Governor BROWN. The budget, as passed in July, was very sound and was premised on the same economic projections as the national government budget, as well as many private companies' budgets, but due to the various effects at the Federal level, the economy turned sour and our revenues were reduced.

Mr. ROUSSELOT. The economy was not sour in June?

Governor BROWN. That was not the prediction.

Mr. ROUSSELOT. Inflation?

Governor BROWN. Inflation rate was running 10 or 11 percent. It always comes down when you are heading toward a depression.

Mr. ROUSSELOT. We understand that.

Governor BROWN. One other point, of the medical deficiency, $50 million is due to cutbacks in the Federal Government, so there is a great deal of shifting around here and I don't know if it makes a lot of sense to argue over if a job slot was filled or not. We have a lot of people out of work, and they would like a job.

I came out of a public building and some young kid said, "I'm losing my job next week."

I was taught to believe one human life is worth quite a lot; and when you devastate their hopes, you undermine the solidarity of the whole country.

I just got a statement here, 90 percent on the local level of the CETA jobs were filled, 90 percent.

Mr. ROUSSELOT. How about the State?

Governor BROWN. 27,000 jobs.

Mr. **Rousselot**. A good portion of those were not actually filled at the time.

Governor **Brown**. That is because we run such a tightfisted regime.

Mr. **Rousselot**. Do you still support constitutional amendment?

Governor **Brown**. Sure.

Mr. **Rousselot**. Good, we agree on something.

Mr. **Pickle**. On that note, the next gentleman, Congressman Gephardt.

Mr. **Gephardt**. Thank you, Mr. Chairman.

Governor, it is a pleasure to be here.

About 1 year ago, the President, President Carter, and then Candidate Reagan engaged in a debate in Cleveland.

At the end of the debate, Candidate Reagan asked the American people if they were better off on that night than they were 4 years ago, and I guess in many ways, the election was really about that question.

Since that time, President Reagan has won in the Congress his entire economic program. He won the budget, the tax bill, and in place today is every part of what he asked for.

The President said when he was elected early on, even in the February address, that he wanted to be judged not on what he said was going to happen, but on what actually happens in the economy.

His No. 1 priority, No. 1 goal, to get the economy expanding and moving.

A year later, almost on the anniversary of his statement in the Cleveland debate, are Californians better off economically than they were one year ago, and if they are not, if the program is not functioning——

Mr. **Pickle**. Let me ask the audience to refrain from expressions and demonstrations.

Mr. **Gephardt**. Are they better off? Is the economy in California working better than it was then?

Second, if it isn't, how long do you think that we, as the Congress, should wait, should continue to go with his program to see if it will work?

Governor **Brown**. Some people are better off and some people are worse off.

There are some large entities that are paying no tax at all and some people toward the lower end of the economic scale that are worse off.

The capacity to find jobs has been reduced.

The statement in the marketplace has also been reduced so that small business is experiencing higher levels of bankruptcy.

The housing industry continues to be devastated. Industrial production is at about the 1978 level and for many people whose names we probably don't know and whose faces we will not see, their lives have darkened.

Others, perhaps they have received some real substantial benefits.

In general, the full effect of this economic program has not been seen yet.

The full effect is the lack of investment in people, the lack of training, investment in research, the lack of independent living for those who are sick or very dependent or elderly.

It is a lack of investment in the most important asset we have, namely, our people, so we can create the prosperity over the long term.

In the short term, some have been advantaged, those who were already advantaged. And others have begun to suffer and those are the ones who were the least advantaged in the first place.

I was once taught in grammar school, we always were to pray for the most forgotten soul in purgatory, and their number has grown, and they are becoming more forgotten.

They should have some piece of the American dream that has not otherwise been extended to them.

Mr. **Gephardt**. The best measure of the success of the program for California will be how your economy grows here.

I know you made your budget address the other day, and you seemed to say that if the California economy in California grew by 4 percent, your budget would be balanced and you based your figures that it will grow 4 percent, based on what you heard from Washington?

Governor **Brown**. Beginning in the second quarter and extending into the third quarter.

Without trying to be too particular about the quarters, we are expecting about one-half of 4 percent, but the more specific answer is that we are expecting over the next 2 to 3 years half of the economic growth that we have had in the last 3 years.

Now, with that, we think we can maintain an adequate level of services. It is not going to be easy, but we are expecting a growth rate, but that growth rate will be half of what it was in previous years.

Mr. **Gephardt**. If you don't reach that, you either got to cut more programs or raise taxes?

Governor **Brown**. Or raise taxes.

Our economic forecast is about mid-level of the economic forecast made in late November and early December.

To the extent that the consensus forecast continues to decline, then we will be in some trouble, and the consensus forecast over the last 5 months has gone down every month.

If you look out and ask what will the economy do 12 months hence, and you add the 30 best-known forecasters, their consensus has been dropping on a straight line for the last 5 months.

We are assuming that the recession is going to turn around beginning in the second quarter this year. If it does not, there will have to be deep cuts or taxes, one or the other.

Mr. **Gephardt**. Thank you very much.

Mr. **Pickle**. Congressman Martin.

Mr. **Martin**. Thank you very much, Mr. Chairman.

The least we can do is offer up a few easy ones for you here this morning so I would like to do that, if I may, after your hospitality last night.

We have been spending too much money, and by the way, if my southeastern dialect is unintelligible, we do have some translators around here.

We weren't raising taxes fast enough. You stated you believe in balancing the budget. Where do we address the cost of Government in order to balance the budget?

Do we cut defense?

That would cause some difficulties here in California which does host a number of important defense contractors in this country.

Defense spending has grown about three-quarters of the inflation rate over the last decade. Or do we cut back on the Great Society? Do we raise taxes faster than we are now raising taxes?

Where do we go?

Governor BROWN. A little bit of most of that.

Mr. MARTIN. Cut defense, and raise taxes a little faster?

Governor BROWN. A little bit of most of that and I don't want to be overly specific.

Mr. MARTIN. Generously general.

Governor BROWN. Let me put it this way: I don't believe that this society will successfully cut back on the basic entitlements or expectations of the American people.

Mr. MARTIN. Cutting back the growth rate. The Federal social spending is growing rather rapidly.

Governor BROWN. It is because the elderly population is growing rapidly.

I believe medicare and medicaid can be cut back by controlling the provider rate.

We give to the rich to minister to the poor.

When hospital rooms are running $400 or $500 a day, when a person is wheeled in, they don't put money in their pocket but in somebody else's pocket for looking at them and operating a machine.

Well, there are significant savings that can be made and if cost-of-living formulas are not accurately reflected in the cost of living a person encounters, that has to be changed.

If medical costs are outrunning the costs in the economy, there has to be control. That will take regulation, prospective budgeting for both private and public hospitals.

Mr. MARTIN. We can cut medicaid and medicare then.

Governor BROWN. Remember, we ought to be honest and we ought to cut the arrangement of the way we organize the system and the providers who will be doing quite well under it.

There are some States like Maryland who have hospital rate commissions and they have done fairly well.

We have sought authority from the Federal Government to hold down the costs of hospitals. For example, I have asked the Federal Government for authority to hold down hospital cost increases to 6 percent, and we need the authority to do that. I will be in court on that and I would hope the Federal Government will provide legal assistance and change the law, if necessary, to support that cutback.

Medicare and medicaid can be cut back if there are limits placed on the cost of the services without hurting those who are most in need of medical care.

Mr. MARTIN. That is 4 minutes, Mr. Chairman.

Mr. PICKLE. Go ahead. Finish your statement.

Mr. **Martin**. Governor, you said that the Reagan budget cuts have cost California somewhere in the order of $500 million. Perhaps $400 million.

If instead of cutting taxes, we let taxes continue to rise as fast as they did, by the year 1984, we would be raising taxes an additional $150 billion. You would be taking $115 billion out of California. Compare that to proposition 13, which would cost $8 billion. Which has hurt the State worse, Federal budget cuts, or to raise taxes another $15 billion or proposition 13 which deprived you of $8 billion a year?

Which is worse, 4, 15, or 8?

Governor **Brown**. I don't really think——

Mr. **Martin**. $15 billion of those raised taxes, it will come out of the paychecks of your constituents' pockets.

Governor **Brown**. These economic arrangements are verging on bankruptcy, and every President has met failure, and it is no accident that President Reagan now has declining popularity, because the last four Presidents experienced the same fate.

Our economic machine is running into trouble, and you won't make it better by taking from the least advantaged among us and giving to the most advantaged among us.

We have to find a way to recreate the momentum of prosperity in this country.

We have to give investment incentive through the private and public sector.

I don't think we are quite there yet, and I would like to see both parties begin to focus on how to recreate the prosperity momentum, because without that, we are going to rip apart the social contract, and this democratic fabric.

I have tried cutting, and I don't have to take a second seat to anyone in this country as far as cutting and it does not work.

Governor Reagan had a democratic legislature to keep him honest and keep programs funded while he took credit for his conservative philosophy, and the same thing is needed in 1982.

Mr. **Pickle**. The Chair will recognize Congressman Downey.

Let me ask the members to limit your questions to 2 to 3 minutes.

We have many other witnesses and we are running behind schedule. Please cooperate with the Chair.

Mr. **Downey**. That is not going to come out of my time, is it, Mr. Chairman?

Mr. **Pickle**. No.

Mr. **Downey**. Thank you for giving me an analogy here. We can candidly say the Reagan revolution has consigned too many working Americans to the hinterlands of economic purgatory and you also rather graphically pointed out that the problems of the eighties and nineties are not going to be solved in this Nation by making the United States a 19th century laissez-faire laboratory which is what the Reagan administration appears to be doing.

I want to ask you some specific questions about Government intervention and the nature of the Reagan mandate.

It seems to me it is undeniable that he was elected with the majority of the votes. He is now our President but the plan that he has laid out for the dismemberment of the National Government is something that lots of Americans disagree with.

Americans want to see more money spent for law enforcement.

Do you find in your State that people are worried about the fact they can't go out at night in the cities, that by reducing the money we provide States, they have to pick up different burdens, and that the amount of money that you spend on law enforcement has been reduced along with the quality of life?

Governor **BROWN**. There is mounting pressure on the law enforcement agencies, as well as the prison facilities and we are forced to go to the people and ask for a $500 million bond issue and a bond issue for local jails and the local governments beginning in July are going to be under great pressure to be able to adequately finance their local police services.

Mr. **DOWNEY**. You mentioned the Japanese.

That is a constructive example of a nation that has organized itself with targeted approaches to win world markets.

Japan, a country half our size, graduates twice as many engineers as does our country. Do you think the Reagan mandate should be translated into making it more difficult for children to go to college; and if that is not his mandate, what has the State of California done?

Governor **BROWN**. We are trying to increase the amount of money we spend on math and science and research but relative to the challenge being presented us by international competitors, we are not doing enough.

The generic point is that American has a problem.

We need to invest in our future and where are we going to get the money.

Are we going to rip off local and State government, take it from the schools or agree as a society to make the funds necessary to retool our educational institutions, our technologies, industries, so we can take care of our own, compete with the rest of the world and provide some leadership with the developing nations?

That is the basic issue and we are shortchanging education, and shortchanging training programs.

The Japanese have lifetime employment and they are putting more money into research, and almost nothing into military research and R. & D. and we are basically carrying the burden and the slack in the economic marketplace is going to be picked up by the penetration of foreign competitors.

That is the clear and present danger, that what we see now is just the beginning, that there will be an erosion in the marketplace unless we can revitalize very quickly, and that means education, training, retraining of the young, those on welfare, and older citizens who can still maintain employment.

If we don't make it, we will all be poor and as we get poor, those who are poor will take from those who have less and you will rip apart the social contract.

The Reagan program has been tried in three countries, Chile, England, and the United States.

Chile has a dictatorship, and it is not working in England and I doubt if it will work in the United States.

Mr. **PICKLE**. The time of the gentleman has expired.

Mr. **Anthony**. Mr. Martin said he thinks we need to continue cutting spending.

Maybe the American public does not realize the significant reductions which Congress has made in Federal spending in the last two Congresses.

Last year, we cut $4 billion, and the first go-around of budget cuts under Reagan, we cut $35 billion; and then in the very last package, when we had our compromise of $4 billion, that comes to the tune of $44 billion in Federal spending reductions that we have made in the last 18 months, and I think that that is significant, and that has shown that this Congress is responsive to trying to trim up any fraud, waste and abuse and any fat that was in the Government. You have summarized your statement and I would like to have you expound on portions of it.

What are we going to do in 1982? What if we shift more medicaid and medicare costs to the States and refuse to go into entitlement programs and rather than cut defense, increase defense an additional 15 percent as the President now indicates that he may do?

Does that mean that State and local governments additionally will not be able to take up the slack, and that your citizens will be even that much worse off in 1982 if the Congress responds and follows the President's proposals for increases and decreases in the places he has proposed?

Governor **Brown**. Well, that is quite a mouthful there.

In the medical area, if medicaid is capped and medicare is capped, then the burden will be shifted to the private sector, and the middle-class consumers are going to pay the bill. It will continue to happen.

We have an aging population. Technology is discovering new ways to alleviate human suffering, and people want to take advantage of that.

To the extent you cap medicaid or medicare, the States will pass that on by capping the cost of services to the doctors, the pharmacists, the hospitals and what have you, and then those individuals, the providers will have to increase their private rates and people will experience dramatic increases in Blue Cross/Blue Shield and all the other private insurance companies so it will be a shift with respect to health care.

Income maintenance programs, I would suspect that those will be cut back and those people will then lose purchasing power at a time of declining economic activity which may in fact exacerbate the downward trend in the economy.

The economic recession, and that is driving up the revenue, and at some point, the State and local governments will raise their revenues rather than go beyond a certain line, but I would suspect that the Federal Government will also arrive at the same point.

Somewhere after 1982, late 1983, that the President is going to come to a nuclear arms treaty with the Russians and cut back on some of his defense spending and find a consumer tax of one kind or another and plug the hole there and deal with the problem in that fashion, just as he did when he was in California.

You can only go down a certain road so far and you have to start turning.

Mr. ANTHONY. If I could summarize, you are saying we are going to have to look at all of these categories, and none of them can be sacrosanct. We have to have a mix of all of the various programs.

Governor BROWN. Whatever you can do to most of the people that is fair, then you are on the right track.

There has to be a pervasive sense of fairness. Otherwise, you pull apart the unit of the country, and that is the most important element right now.

Mr. PICKLE. The Chair recognizes Congressman Hance.

Mr. HANCE. I have a couple of quick questions.

It is my pleasure to serve with Bob Matsui, and I appreciate the job that Bob and his staff did in setting all of this up.

On page 7 of your testimony, you say that there will be a loss of Federal funds of 41 percent. What percentage of your educational budget is federally funded?

Governor BROWN. I believe it is about 10 percent.

Mr. HANCE. If you lose a part of that, you lose 5 percent of your educational budget. Will that be made up by the State or local governments, and if so, do you anticipate there will be increases in property taxes at the local level?

Governor BROWN. There again, I think we all see now the political pendulum swings, and right now we are swinging in the cut/reduction direction, but at some point, when enough people are negatively affected, that pendulum swings back, and if the school teachers are further exploited and disadvantaged, if the doctors are not paid what they believe to be a fair rate of reimbursement, and if a number of other things occur, then there will be a very powerful coalition for increasing the annual assessment on business property in the State, and thereby increasing the amount of money for local government, and I would say that effort will be supported by some elements of the business community, by the press; and what is happening now is that there is an experiment to see how much you can push people but if you push the teachers and the doctors, and the elderly and those who are looking for some assistance beyond a certain point, then in our State, we have an initiative process and 5 percent of the people can put a pressure on the ballot and I would suspect they will do that and recapture a part of the tax benefit conferred on the largest enterprises in the form of an annual property tax assessment.

I don't say that is ripe yet, but as the cuts increase, then the political constituency for that will crystalize and bring something about in a relatively brief period of time.

Mr. PICKLE. Congressman Matsui.

Mr. MATSUI. Governor, I want to thank you for your hospitality on behalf of the members of the committee.

I have one question to ask you. When Ronald Reagan was running for the presidency in 1980, he indicated that he wanted to cut taxes, increase the defense budget, balance the Federal budget, all at the same time.

John Anderson said, "The only way he could do that is by mirrors."

He got the massive tax cut and the largest defense increase that this country has seen, even outside of World War I and II and the Korean war.

Mr. Stockman of the Office of Management and Budget has indicated our deficit for fiscal year 1982 will be $109 billion, $152 billion for fiscal year 1983, and $164 billion in fiscal year 1984, or a combined total of $300 to $400 billion over the next 3 years.

We are going to have to work on that budget and make some significant revisions.

We do know the President will come up with $30 billion in additional social spending cuts. He is fooling around with excise tax increases which will give us about $6 billion or so for fiscal year 1983.

Even if we double those excise taxes, with that deficit figure looming over us and the commitments that the President has made not take away his tax cut, what would you suggest that we as legislators do?

Governor **Brown**. That is a good question—to all of that?

That is a major platform there.

Mr. **Matsui**. Would you suggest we take away the individual cuts, for example?

Governor **Brown**. I believe you are going to pay more than you will receive if you subscribe to any more cuts.

There is a point of being counterproductive, and I would say that what has to take place is that the Ronald Reagan of his governorship years has to be rediscovered. When he supported the progressive tax, when he understood that burdens had to be shared by all sectors of society, and where he could work with a democratic majority in a way that made both sides feel reasonably satisfied, so I think there are some provisions.

You mentioned the leasing credits. Fortune magazine called them the tax avoidance boogie-woogie. I used that phrase and people thought it was my buzzword, but it is not mine, it was Fortune magazine's. That is many, many billions of dollars that are available there. I guess I shouldn't bring that point up.

In any event, I think that there are some areas there that could be corrected. You will find, I guess we are all prisoners of some forgotten economies and the supply side business came on very suddenly.

The next new economic trend is that tax incentives don't have all that much to do with economic performance. They have something to do in some cases, but they have been way overstated as the means to revitalize the American economy.

As the numbers come in on that, then you will be in a position to recapture some of the unjustified subsidies that have been provided in the name of economic growth.

I would say you ought to alleviate the suffering, and develop a true economic strategy.

Mr. **Pickle**. Mr. Bailey.

Mr. **Bailey**. I would like to compliment Bob Matsui and, Governor, you also, for the welcome and both of you for the fine work that you do. As someone who has nefariously earned the nickname "father of leasing," I would have to say the impact of some of the supply issues that were seen, we might disagree but the things that you said really caught my mind.

I would like to take up on a question that Mr. Rangel asked, because I think you have touched on all of them very well. Excise taxes, any taxing environment involves a relationship between what you are trying to achieve, how productive, how it affects the people and the economy. You used the word counterproductive, and I agree with you very strongly.

What really is going on? If you view the tax cuts of the administration—incidentally, Mr. Rousselot, that was a Republican-controlled reconciliation measure, Gramm-Latta II, and I would like to follow up on what Mr. Martin said.

If you look in context, the impact of State tax structure in this country on individuals' lives, you put your finger on the issue, role and function of government.

Spending priorities, effective tax rates given the changes we have made, they really do provide liberal increases to the more wealthy and come down very hard on the poorest. This country has never guaranteed that somebody was going to have a thousand dollars in their wallet, that anyone would be guaranteed X, Y, or Z.

We discovered that concept and redefined it through time.

Mr. Rangel asked a question that went this way, and I guess Lincoln once said this best. Before we can figure out where we want to go, we have to decide where we have been and what we have done.

The truth in fact, given the charities, et cetera, there is no possible way, is there, that we can meet the needs of the poor, working poor and the truly disabled in this country? I don't see how we can do it. Can California really do it?

Governor **Brown**. Not meeting all of the needs that we should. We are going to meet less if the present doctrines are continued. There is a worldwide slow down in economic growth. Productivity rates in Japan have declined 63 percent in the last 10 years, and so have they in France and Italy.

The Soviet Union's 5-year plan has been declining every 5 years. There is a global slowdown, so we are not growing as fast, and that has to reorient our thinking. Who is going to bear the burden of this economic pause that is global in scope, and my deep conviction is we are going to rip apart our social contract and let loose forces that none of us even wish to imagine unless we can assure a fundamental equity in our economic decisionmaking.

I have no doubt that we can rebuild the economic momentum of the Nation, but it will take some time and it will take some consensus, and in that process we should not just be shifting around the burdens. Rather, we should be creating a new economic order, a strategic blueprint to allow us to do the things that we need to do and that will derive from technological innovation, investments in people to equip them with the skills that are needed in a very rapidly changing economy, and that means young people, old people, people in the midterm of their life, and that means an agreement with the private and public sector to set out a framework of training and retraining.

If we don't, we will argue about how to divide the less and in so doing, we are going to undermine the democratic fabric which depends on the creation of the more.

Mr. **Pickle**. The Chair has recognized all of the members of the committee. We have two Members from California who are not members of the Ways and Means Committee, but we are pleased to have you with us this morning.

Governor, again we thank you. You are impressive and you state your position clearly. We are pleased to have heard from you.

Any other questions?

Mr. ROUSSELOT. As you know, Governor, part of our problem at the Federal level has not been really to cut expenditures as much as to slow down growth.

President Carter left a projected budget of $742 billion, and we reduced that to roughly $700 billion in spending for 1982.

Where do you do it differently? You and I believe in a balanced budget. You are for constitutional amendment, and I am. Where would you slow down those spending increases?

Governor BROWN. I would stop turning America into a colony of our military allies.

Mr. ROUSSELOT. You would cut defense spending, by how much?

Governor BROWN. Wait a minute.

We are sending raw materials to our military allies, food, coal, wood products, and we are buying back value-added expensive merchandise.

Second, we are providing the mercenaries for countries that don't want to pay for their own defense, so as the first principle I would make it our job to restore our economic strength, so we are stealing the manufactured product, and demand of our allies that they take care of more of their defense burden.

Mr. ROUSSELOT. We are spending about $200 billion this year. What would you cut it to?

Governor BROWN. I would only spend that amount of money that I thought would defend our Nation and its interests, and I believe that the spending program that has been adopted was done so quickly that it is nearly impossible that the Members of the Congress could have fully analyzed those huge new programs and weighed them against the activities that are needed.

Senators Nunn and Hart and others are beginning to develop some very fine concepts and agencies of how to make our defense budget stronger.

Mr. ROUSSELOT. How much are we going to cut? We can't vote maybe.

Governor BROWN. MX—Reagan has already cut it out halfway.

Mr. PICKLE. The Chair recognizes the gentleman for 1 additional minute.

Mr. ROUSSELOT. This is valuable information.

Governor BROWN. I certainly wouldn't cut any in your district.

Mr. ROUSSELOT. Phil Burton already took care of that.

Where else would you cut?

Governor BROWN. I make this point, that I don't believe that our form of government will survive a prolonged period of massive cutting.

Mr. ROUSSELOT. Slowing down increases in government.

Governor BROWN. No, sir. You are cutting in real terms.

Mr. ROUSSELOT. Where else would you cut?

You are running for the Senate. Where would you cut?

Governor BROWN. I would establish ways of prospective budgeting so as to restrict the growth in the medical industry and bring some rationality to that particular sector, and that is several hundred billion dollars in the Nation's economy.

Mr. ROUSSELOT. You should talk to Henry Waxman.

Mr. PICKLE. We must continue.

Governor BROWN. I would modify the tax avoidance boogie woogie.

Mr. ROUSSELOT. Good.

Mr. PICKLE. Governor, we thank you very much.

Governor Brown. I have a few more points but I don't want to offend any more Members.

Mr. PICKLE. Thank you very much, Governor.

The Chair is now going to represent the representatives of the State government panels, and Lt. Gov. Mike Curb was going to be here but his statement will be included.

Mr. ROUSSELOT. Mr. Imbrecht has his statement.

[The statement of Mr. Curb follows:]

STATEMENT OF LT. GOV. MIKE CURB

Chairman Rostenkowski and honorable members of the Committee, it is indeed timely that your Committee journeys to California to assess the impact on state and local government resulting from budget and program decisions at the federal level.

To begin, I think it is important that we look at the scope of the difficulties faced just over a year ago at the federal level. Our nation, thanks to a government grown too fat for the delicate balance, experienced the second straight year of double-digit inflation. It was the second straight year of declining productivity, and personal savings were lower than they had been in over three decades. Real weekly earnings fell by fourteen percent since 1972. Federal taxes had quadrupled over the past fifteen years and federal spending had more than doubled in only the past five years. The Federal Budget, of course, had been balanced only once in the last twenty years. On top of all that, the American worker was faced with mountains of regulations costing him more than $100 billion every year. The sheer size of such a calamity that took so long to amass was overwhelming.

Still, just as there were those who, over a year ago, insisted that there was no problem, there are many who find fault with the cure, a bold program to devolve power from Washington, reduce the size of the public sector, and renew the sense of opportunity that gave America the gifts we enjoy.

In fact, there are some who maintain that Government spending cannot and should not be cut. They say it cannot be cut without causing irreparable damage to dependent Americans unable to care for themselves. It is not a new argument, but it is sometimes hard to understand how anyone familiar with the size and scope of government can purport it effectively and with candor.

A good example of such rhetorical overkill can be laid to rest in looking at AFDC benefits allowable in California, prior to the changes enacted by the President and enacted in reconciliation. Under the former system, as you can see from this document, a family of four in California could have received AFDC aid even though they had annual earnings of $25,000. Given the disregard of 20 percent of gross earnings for work expenses, child care cost, and the California payment standard, the hypothetical family of four would qualify for AFDC aid. It is hard to maintain that a welfare service is needed for those in the $25,000 income brackets. It is harder still to maintain that there is no room for spending reductions in social services. And it is even harder yet to try and sell such nonsensical spending programs to an overtaxed American public, taxing their own earnings to provide them with services that they don't need after filtering the tax money through the sticky and expensive fingers of the Federal apparatus.

Under the present AFDC system, the maximum annual earnings which a California family of four can have and still qualify for AFDC will be about $11,000. Like countless other examples of spending reduction under the Reagan revolution, what is trimmed should never have been there in the first place, and can in no way be described as trimming bone and not just plain fat.

Californa has by far the most generous welfare program in the nation. Consequently, it should not be difficult for us to adjust to the Federal changes. In fact, our major concern is that the welfare grants in California are so generous that they are exceeding the minimum wage. In 1982-83, the Governor is proposing an 8.8 percent increase in welfare.

There is another crucial factor in regarding the success or failure of the Reagan reforms, beyond that of assuming there is no waste at the trough, and that is the concept of hidden victims and hidden beneficiaries. A hidden victim is the unknown soldier in the battle against over-regulation and big government. He is the man or she is the women deprived of a job or deprived of a raise because of costly Federal paperwork or regulations. A hidden victim is someone who is unemployed because no one had enough money left after taxes to start the small business they had planned on. A hidden victim is hidden because they might not even know that they are victims: You cannot see a small business that never got started and you cannot miss a raise that you never had. Still, you would have had that job or that raise if the resources had not been used for something else, and that something is usually somewhere in Washington.

By the same token there are hidden beneficiaries, who will get and are even now getting those raises and new jobs simply because the delicate balance between government and productivity is being restored. If someone's check is delayed in the mail and it makes the front page of the paper as yet another example of the heartlessness of budget reductions, one must also remember the hidden beneficiaries that would never have gotten that chance without a return to policies of fiscal sanity and restraint.

Yet a third factor that must be considered in assessing the impact of the President's programs must be the condition of the individual state before those programs were implemented.

The impact of Federal Budget cuts upon California has been greatly exaggerated by conditions existing within California long before the federal cuts were made.

If these conditions did not exist, California should have been able to absorb the cuts with little difficulty.

Essentially, these conditions began with the passage of Proposition 13, the historic tax cutting initiative, by the voters of this state in 1978. They are—

1. State government's subsequent failure to meet the obvious mandate of Proposition 13—that is, to significantly cut back on state spending;
2. State government's refusal to reform government finance and provide local government with an adequate, stable funding source lost through Proposition 13; and
3. Three years of deficit spending at the state level, between 1978 and 1981, during which time those controlling state government chose to exhaust a huge $6 billion budget surplus instead of making necessary reforms.

Then in 1981, several other things happened that left us poised on the edge of financial ruin.

A budget was signed last June that was totally inadequate as a spending plan, because it was precariously balanced with one-time funds, and left an exceptionally low level of reserves.

In fact, the budget began to unravel almost as soon as it was signed.

Our cash-flow problems began July 1, and the worst three months were July, August and September—before the President's budget took effect.

Then we had to deal with the costly Medfly fiasco, and the expense for this, I'm sorry to say, can be traced directly to our Governor's lack of leadership.

The Governor's failure to deal rapidly and decisively with the Medfly problem has cost this state $94 million so far, and there's no way of measuring lost agricultural income to the state, or the taxes that might have been collected on that income.

Finally, the state's failure to comply with Federal welfare laws has cost us another $60 million.

All of these failures by those in control at the state level, occurring over a period of years, has had a predictable cumulative effect. They left California vulnerable to any downturn in the economy. Difficult decisions that should have been made over the last three years were postponed until they all had to be made at once.

It is clear the financial condition of California was in jeopardy long before the first elements of President Reagan's program went into effect last year.

Now the politicians who were responsible for those failures, the Govenor and the Democratic Majority in the Legislature, think they have found a way to divert attention from themselves by using the President's programs as the scapegoat.

It is important to recognize that the President's economic program is on the right track, and may give us the only chance we will ever have to set our economy right.

With that in mind, I want to emphasize the cornerstone of the Reagan revolution, a program that is truly revolutionary and, lamentably, misunderstood and even feared by those who it will benefit the most. I am speaking, of course, of block grants, the Reagan proposal for a bold new federalism.

To beat inflation and to keep the lives of America's workers from imminent destruction, we have seen how spending cuts are necessary and even those who deplored cuts now agree that restraint is completely necessary. But under the new federalism, less money does not necessarily spell out less care, less quality, or less opportunity, what it does mean, is that government will be made more efficient, more accountable, and less remote from the immediate needs and wishes of the beneficiaries and less remote from the understanding and experience of the professionals who administer the programs.

Under the President's original block grants proposals, the categorical grants slated for reform required 613 pages of law and 1,409 pages of regulations. The amount of time required to complete the federal reports was 6.5 million hours—the equivalent of 3,125 people doing nothing but filling out forms, forty hours a week, all year long. Under block grants, federal paperwork will be reduced by 80 percent in fiscal year 1982 and by almost 90 percent in 1983. As just one additional example of boosted efficiency, the Health and Human Services regulations were reduced from 318 pages of regulations to just six pages. At the State level I welcome this cut back in non-productive paperwork.

There is no denying that the reduction in paperwork and the subsequent increased efficiency will mean more bang for the buck in governmental services. It is also likely that those savings alone will have a tremendously ameliorative effect on any reductions forced upon spending programs. But there is another ingredient here, perhaps a hidden benefit, in block grants. What is eliminated in those pages of discarded regulations is not just wasted time. What is eliminated is Washington telling Sacramento what to do, how to do it, when to do it, and how fast. It is Washington shifting power back to the states, power that was once in places like Sacramento but followed the gravy train to the Potomac.

No longer will state officials have to knowingly waste tax dollars just to comply with a regulation written thousands of miles away by someone totally unfamiliar with the local problems. Instead of loading money into airplanes and sprinkling it over the countryside, the Reagan Administration has found a way to target the areas in need and see that money is spent as wisely and accurately as possible. Additionally, because the Federal Government will do little more than sign the checks, interest and opportunity will return to state government, revitalizing a crucial part of our nation's system of government that has formerly been stripped of its control.

What concerns state administrators, understandably, is reductions in funding. Indeed, it gives some of them qualms about block grants in general, but those with qualms, in almost every instance, have not paid attention to the inherent savings from the inbuilt efficiency of the system, nor have they stopped to imagine how much better they can function with the increased power and authority granted back to the states and, hence, back to them and to those they represent. Politicians, administrators, private citizens, from both parties and of every political persuasion have come to recognize how little can be done to solve problems from behind a desk in Washington. In an age that has come to recognize the virtues of smallness and localized and personalized treatment, few things could be as appropriate as block grants and the new federalism. In times when we desire savings without serious reductions in benefits for those in real need, block grants and the new federalism is, again appropriate. In times when power needs to be divested of special interests and returned to those who are governed, taken from Washington and lobbyists and political pressures of complicated regional concerns, and returned to the locales, returned to the people, block grants and the new federalism is, one more, inestimably appropriate.

Taken as a complete package, the President's program will also encourage the rebuilding of American industry, spelling more jobs, better jobs, and better and cheaper goods and services. That will be augmented, of course, by tax reductions, funneling more and more of America's productivity out of the morass of the public sector and into the fresh air of a vigorous economy.

Reductions in spending, carefully administered with respect to a proven commitment to preserve the social safety net, will reduce the federal debt which, in turn, will be further reduced by higher tax revenues created by a more prosperous economy. Liberalized depreciation allowances will raise the rate of return of business investment, again creating more jobs and, for the government, revenue that would never have been there in the first place if it wasn't for bold solutions.

By passing and supporting the President's programs, the United States Congress is owed a debt of gratitude from Californians, and from all Americans. You have given us a chance to prosper free from governmental burdens, you have helped President Reagan return a large measure of our local and state autonomy, and you have given us a chance to rebuild our country from the ground up, refurbishing the spirit and the reality of solid opportunity for all Americans.

I would like now to introduce Assemblyman Charles Imbrecht, Vice Chairman and ranking Republican on the Assembly Ways & Means Committee who will offer specific comments concerning the California Budget and impact we see brought about by cuts at the Federal level.

Thank you.

[Attachment]

Some Families With Very High Earnings Can Still Receive AFDC

Prior to the AFDC changes proposed by the President and enacted in Reconciliation, a family of four in California with annual earnings of $25,000 could still be eligible for AFDC payments.

Monthly earnings	$2,083
Disregard for work expenses (at 20 percent of gross earnings)	417
Child care costs for 3 children (at about $115 per child)	342
Countable net income for AFDC purposes (after "$30 and ⅓" earnings disregard applied against gross earnings)	600
California payment standard	601
AFDC benefit	1

Source: Office of Management and Budget, October 1981.

AFDC eligibility would also make the family categorically eligible for Medicaid, which would be worth a significant amount for a family of four.

Families with even higher earnings could be eligible, since nearly half of the cases with earned income have work expense disregards which exceed 20 percent, and since child care costs could be much higher. (Only about 11 percent of all AFDC cases have earned income, however.)

This problem has been remedied in the AFDC changes enacted in Reconciliation:

Work expenses will be capped at $75.

Child care will be capped at actual expenses not to exceed $160 per child.

Gross income eligibility will be capped at 150 percent of the State needs standard.

The "$30 and ⅓" disregard will apply only for the first four months on AFDC.

The maximum annual earnings which a California family of four could have and still be eligible for AFDC, after these changes, will be about $11,000.

Mr. Pickle. We will recognize Mr. Ken Cory, the State controller of the State of California.

If the other gentleman shows up, we will lay in his statement.

We must continue with the witnesses who are here as shown on the schedule.

The Chair will ask that the house be in order. Before you proceed, we will not be able to recognize each one of you for questions, but if any of you do have questions, you will be recognized. We want to get testimony on the record, so Mr. Cory, if you will proceed.

STATEMENT OF KENNETH CORY, CALIFORNIA STATE CONTROLLER

Mr. Cory. My name is Ken Cory, and I am the controller of the State of California. My duty is in essence the bookkeeper, if you will, or chief fiscal officer.

My job is to make sure that people pay the money to go to the State of California and make sure we don't pay any money that is not owed to someone else.

I am sort of a traffic cop that deals with the actual flow of dollars in and out of the State treasury, and I am pleased to be here to share with you our knowledge with respect to State government and be here with friends like Bob Matsui and Gene Chappie and Mr. Dymally, who have toiled in the vineyards of State government here.

The printed statement I will leave with you for the record.

I will let that stand.

Mr. **Pickle**. Your entire statement will be included in the record, and I want to also state that Governor Brown's statement will be included in the record.

Mr. **Cory**. The difficulty that I am troubled with, and I hope that you can at some point out of the various statements, those of us who are politicians that come before you, can make some sense out of this and make some realistic determination on this puzzling problem, that California started a little bit early in the budget-cutting craze, and I have come to the conclusion that after World War II we have seen an orgy of spending in government on programs by votes, if you will, by having new programs, spend more money on different projects, whether it is defense or social programs or what have you.

We in California, most famously through proposition 13, have foisted off on the rest of this Nation something that has to come to an end, and that is a new orgy of spending on tax cuts without any realistic appraisal, that there is a finite amount of tax cutting. It is really another form of spending. We are spending the taxpayers' money by giving it back to them by their votes.

We have had some $47 billion in aggregate tax cuts here in California, including proposition 13, and the other items, and I would like to add that we were promised by the perpetrators of proposition 13 on our society, if we just did this, we would take a giant step of getting government off the back of the business and private sector, the economy would take off and roar, and there would be more government revenues and the economy would be much better off.

And what has happened? Nothing, except we have lost tax revenue and the economy has continued to dwindle downward, and inflation up and down, unemployment up, and people have not been helped but a few people, and new faces have shown up here in Sacramento that have gotten elected.

We have done a lot of other things, reduced business inventory taxes, indexed personal income txes, and done a lot of things, the total is $47.5 billion up through this fiscal year in tax reduction. We have gone from second in the Nation, State, and local per capita taxes, down to around 20 in a 3½-year period of time.

We have not seen the thing that is being promised back in Washington, if you just do this, this economy is going to take off and the world is going to be a lot better off. We are a microcosm and we are much smaller than the entire Nation, and maybe it will work in the Nation, but we are the seventh largest economy in the world, the State of California standing alone, and it has not happened in that relatively large microcosm, and the same snake oil peddlers who started the program out here have moved to Washington and they are telling you folks to cut taxes, don't worry about it, and the deficit will take care of itself.

We don't have your option of being able to run a deficit. Our constitution says we must have a balanced budget.

When proposition 13 was passed, we had some $9 billion in cash in the bank the day it passed and a general fund surplus in excess of $5.5 billion at the time, and we are pretty flush and we have been giving away money like there is no tomorrow and it is not working.

The revenues aren't coming in. Our revenues in December were down $200 million from projections in one month. We do have that finite restriction, we can't run a deficit, and this year we have got some serious problems, problems that neither party is facing very realistically. We cannot print money, type checks, and here we sit at this point in time, if everything works for the rest of the year the way it is supposed to, we will probably end up with about $16 million surplus on a $24 billion spending program.

That is if suddenly we go right back to where we were before, we are at the end of the rope. We have spent all of our moneys, not unlike in my view, the sailor on leave down to his last buck, and he is 200 miles from the ship, and instead of spending his last dollar on taxicab fare to head toward home, he buys one last drink, and that is about what we are doing. Both parties are guilty of it.

This magic of cutting taxes is going to save the world somehow.

Mr. Laffer told you this will cure your problems. I hope you don't believe him. It has not done a damn thing out here except increase our unemployment, welfare burdens and no benefits.

I know Mr. Laffer isn't the solution. I don't have a solution. It isn't working here, and I don't see any expectation of it working at the Federal level. It is not a very pleasant picture.

I am talking about analyzing our tax structure and admitting that a great deal of investment, business decisions are made based upon our tax policies and not on true productivity.

There will not be a lot of real press and political sex appeal to that, but I can tell you that I have made some personal gains from some of the crazy things you people have done in Washington in terms of tax policies.

I happen to be a little better off than the average Californian. I have been lucky. I would rather be lucky than good, but I have benefited from those changes in tax policy. I am in the process of selling a piece of property and I find myself looking at how to make a 1031 tax exchange so I don't have to pay taxes, and the parcels I am looking at are not particularly productive parcels. I have some fairly productive farmland in the San Joaquin Valley I am planning on selling.

If you want to do something about the economy, you will have to look at those policies that have people standing in line to buy negative cash flows. I don't see how a nation can, in 30 years, have people standing in line to buy negative cash flows and expect that anybody should take them seriously when they moan lack of productivity.

It is something the people shouldn't want but in fact our tax policies make it attractive.

Those are the kinds of problems we should be dealing with rather than the snake oil. If we can reduce our taxes and we will have more money in government, well, it is not going to work. It has not worked here and it hasn't worked in Washington.

You got some tough problems.

There are some cheap shots coming out of Washington that will adversely affect the States in our inability to—well, we have $339 million of our State dollars that we don't know where they went.

You got a right to audit what we do, but we don't have the right to audit what you do.

The Federal Government tells us, "We want you to issue the checks and pay the money before we put up our money." We got a constitution here in California that does not let us do that. We have no extra cash that we can afford to do it, and all of that costs us money. We have a President that talks about new States rights. And a Solicitor General, he files last Thursday in court an amicus brief on the unitary tax concept to take away our ability to tax in California.

That is big brother in Washington telling us what to do. It will cost us dollarwise right at $500 million in additional revenue, continuing the binge of the sailor having that one last drink before he heads back to the ship.

That is the kind of nonsense I see out of an administration that I think speaks with a forked tongue.

Mr. PICKLE. Have you finished?

Mr. CORY. Yes.

[The prepared statement follows:]

STATEMENT OF KENNETH CORY, CALIFORNIA STATE CONTROLLER

Mr. Chairman, my name is Ken Cory and I am the Controller of the State of California.

As the chief fiscal officer in state government, I keep the checkbook. I make sure we collect what is due and pay out only what is owed.

I appreciate this opportunity to testify and want you to known how reassuring it is to see members of the Congress apparently alive and well. Over the past year, we had begun to wonder whatever became of the legislative branch of government. I hope this series of hearings will convince you that Congress must assert an independent role in policy making and stop acting as the cheering section for Presidential proposals.

At the President's insistence, Congress has taken food from the hungry, comfort and health care from the elderly, jobs from the working family, and value from the dollar. Washington has replaced the certainty and optimism necessary for business growth with anxiety, fear, and high interest rates.

We have entered an era in which the President is neither planner, manager, nor leader, but a salesman, peddling an economic fantasy island instead of good government.

Like the snake oil peddlers of a few years ago, he promises that his policies will not only restore the nation's economic health, but also strenthen our moral fiber, reunite families, stop teenage sex, and make us all beautiful in the bargain.

While his medicine is bitter at first, we are told to stop complaining, have faith, and believe in him.

When the snake oil peddler had gotten all he could from a community, he quickly moved on. By the time his victims learned the truth about him and his products, he was out of sight.

Although President Reagan does his selling from a television screen instead of the back of a wagon, and although he lives in splendid isolation from the real America as he jets between Washington and Santa Barbara, sooner or later our system will catch up with him.

Recent polls show that it may be sooner, and for that we are grateful.

But the damage already done to state and local economies will take years to repair.

I urge you to resist further budget shifts. Each one brings real and present hardships while we wait for a miraculous future cure.

Everyone remembers the sign on Harry Truman's desk: "The buck stops here." It was a mark of his acceptance of the responsibility that goes with the office.

If there were a sign on Ronald Reagan's desk, it would read:

"We pass the buck."

And when responsibility for meeting the needs of all our citizens fall solely on states and localities, the burden to too great. When the federal government with-draws from partnership with other levels of government and the private sector, the gap is too wide and deep to be filled from our limited resources.

I welcome you, then, to California, Sacramento, and to the end of the political-economic-ecological chair. Now, the buck stops here.

The administration says that government is too big, costs too much and is insensitive to people's needs.

Who can argue with that? But the actions taken by the administration are filled with contradiction and sold by double-talk.

Over the objections of a few, Congress passed one of the most sweeping tax reductions this country has ever seen. This was immediately after passing an equally grand and sweeping reduction in federal spending everywhere except defense.

We were told this would put more money in the hands of the people, that it would stimulate the economy, increase jobs, reduce interest rates, slow inflation, trim the size of government, improve our moral fiber, and make us all beautiful.

Although our inflation is largely the result of borrowing to finance 30 years of intermittent and costly wars and defense, aggravated by soaring energy costs, we are told inflation can be brought under control while increasing defense spending.

Meanwhile, no plan, no strategy is proposed to deal with the economic upheaval caused by fuel cost increases in the early 70's, or with those sure to come as the world resources dwindle.

While unemployment soars as basic industry slows to a halt, we are told that by reducing education, training, and job development efforts, we will magically match many millions of underskilled and unemployed to a few thousand high technology jobs.

And while inflation threatens to impoverish the nation's elderly, we are told that cuts in Medicare and Social Security are good for us.

None of us should be surprised at these tactics.

When Reagan was Governor, he unloaded a large share of State Medi-Cal costs onto counties, thus beginning the property tax spiral that led to Proposition 13.

He tried to impose fees for education, reduce state purchases of parks and recreation, and cut subsidies for local government, all in the name of reducing government and stimulating the state's economy.

Once again, he tells us that undoing government will do us good and stimulate business.

But his other primary goal is to rearrange the economic structure of our country. He wants to prevent government from balancing the economy and filling the gaps between wage earners and investment earners. From natural resources to educational opportunity to cutting off nutrition support to mothers and babies, this past year has seen a grab of the country's assets and a rejection of the country's needs and if the states are ruined in the process, the Reagan administration frankly does not care.

Last October, Treasury Under Secretary Norman Ture (Too-ray) said in the Wall Street Journal: "* * * cash-starved states should boost their own taxes even if that would subvent the intent of President Reagan's economic recovery plan." Ture went on to say "The states aren't compelled to work with the Federal government in that program."

Does that make sense? If the economy is going to recover from reductions in government spending, should one level spend while the other cuts?

On the other hand, California is a clear example of how cuts at both levels of government are crippling.

Beginning with Proposition 13, we have already reduced state and local taxes in California by $47.5 billion as of this fiscal year. We have cut state spending as a share of per capita income by nearly 20 percent. We were told by the same economic hucksters—Laffer among them—that California's economy would take off, that business growth would quickly make up lost tax income.

But none of those cuts resulted in a booming economy.

No new rivers of revenue opened up.

Instead, both government and business began struggling to make ends meet.

Having peddled his products here in California, Laffer moved on to Washington. Thanks to modern media, his wagon is still in sight. I hope you are still asking him about the famous curve when unemployment reaches nine percent in California. Ask him where the boom went.

When costs are shifted to states in human services, the effects are immediate.

Last year's proposed federal cuts in Medicaid and welfare payments would have increased California state general fund costs by $538 million in this budget year and $1 billion over 21 months.

We did not have the money. We fought the cuts and the Congress substantially reduced their scope. In the end, federal actions resulted in state general fund increases of nearly $90 million.

Where programs were not mandated, we simply pulled back, as in social services to seniors. Who now pays those bills? Not the state and certainly not the federal government. So the buck is passed.

When will it stop? On March 31, the continuing resolution expires. Health and Human Services Secretary Schweiker is almost daily proposing additional cuts in programs in that agency. Every dollar taken from the federal share means either an additional dollar spent by the state or a service not provided or a need not met.

I said earlier that we cannot fill the federal shoes.

Let me tell you just how it is.

We adopted a budget last June expecting to spend $21.6 billion and receive $22.1 billion. Our fiscal year, which ends June 30, 1982, would have shown a modest surplus of $459 million, not much of a buffer for a $20 billion plus spending plan.

But we have trouble.

In the first quarter, revenues fell $20 million, mainly because bank and corporation tax payments were off because of the recession.

In the quarter just ended, revenues fell again. Christmas sales not only failed to meet expections, profits were down for retailers as they cut prices early to keep shoppers in the stores.

We have, as someone once said, lowered our expectations.

We no longer expect a $459 million surplus. We will be lucky to end the year in the black. If our own legislature does not pass pending legislation speeding up the collection of withholding and sales taxes and increasing penalties for late payment of income taxes, we will not make it to June 30. Unlike the federal government, we cannot have an unbalanced budget. Our borrowing must be temporary and based on assured revenues. My constitutional responsibilities are clear: I cannot and will not release funds to schools, counties, health care providers, state employees, or anybody else unless I can see a balanced checkbook at the end of the year.

Not only are the legislative and budget strategies of this administration hurting us, we are getting no relief from administration managers.

In spite of the New Federalism we hear so much about, relations are deteriorating:

We are unable to recover $391 million in overpayments of state funds for the SSI/SSP program, which is 39 percent of all state payments for the period in question. While the federal agencies audit the handling of federal funds, we are not allowed to audit federal handling of state funds. We do not yet have a full accounting of California dollars paid into the SSI/SSP program which has been plagued by management problems over the past three years.

The Department of Health and Human Services wants to delay our draw down of federal dollars for matching programs. At present, the federal share is in hand when we make Medi-Cal and other payments. They now want us to make the payments first, then receive the money.

This would require California, along with a number of Southern and Western states, to violate our constitutional prohibition against issuing checks against insufficient funds. We have joined Illinois, Kansas, Oklahoma, Florida, Arkansas, and Louisiana in efforts to reason with DHHS staff, but we are told that our constitutions do not matter and we must comply.

We are told repeatedly that the administration will make government simpler. But the shelves in the health and welfare programs are still lined with cost-pushng rules and regulations. I invite any committee member who would like to see those bookshelves to join me on a tour of the state health and welfare department offices. They are in twin high-rise buildings . . . the tallest buildings in Sacramento, built when Reagan was governor.

If we do not begin to see some order and predictability to federal behavior, the future of state government will become more and more uncertain.

I cannot kite checks. I cannot borrow unless repayment is certain. Our revenue projections become less and less accurate as the economy worsens. We pass social problems and their costs on to local government but don't allow local government the means to cope Soup kitchens in San Francisco report longer lines and whole families seeking food. Unemployment offices are filled. The housing shortage is the worst since World War II. The signs of a system malfunctioning are everywhere. While most Americans are still financially secure, the numbers out of work and too deeply in debt are rising sharply.

I have to wonder at an economic strategy that depends upon the faith, hope, and charity of corporations. Instead of modernizing and expanding to meet foreign competition, U.S. Steel just invested over $7 billion in resource rich Marathon Oil Company for billions in tax credits that will not create a single new job or open a single new market.

Instead of tax reform that would have put real spending power into the hands of middle and lower income families who use their money for basic goods that stimulate the economy, we have a bald and arrogant giveaway of tax benefits to a small but powerful class of wealthy organizations and individuals who buy each other's debts to defer tax liabilities.

Instead of assuring a minimum standard of living for older Americans whose earning days are ended, we see raids on Medicare and Social Security so that defense cuts can be softened.

Beyond the questions of what social values are being sought through these proposals lie another set of issues.

Are the needs for food, shelter, education, job training, and health care real, or will the federal withdrawal expose them to have been fiction all along?

Because if the needs are real, there will shortly be political and social hell to pay for doing nothing. It takes our economy much longer to recover from a recession than to get into one and we have not hit the bottom of this one yet.

Can we really expect to stimulate the economy by shotgun tax reductions as opposed to targeted tax incentive programs? Maybe, but it has not happened in California in spite of huge reductions because inflation has kept the pressure on. If the theory doesn't work who will lead Congress to enact new taxes? Not the President, apparently. He will ask for more cuts. He may yet see the destruction of the Medicare program he fought so hard to stop in 1964.

Not only is our tax policy now unfair, it makes no economic sense. Instead of investing for increased production and economic growth, the game is to find tax shelters and deferments.

Instead of pooling funds for major social needs such as housing or alternative energy development, the tax system encourages buying and selling businesses, not for growth, new markets, or new products, but for tax purposes.

I suggest that much of the economic malaise of our time is rooted in a tax policy that has made products, the markets, and the growth of business less important to many than the avenues investment offers to avoid taxes.

On another tax issue, you have before your committee and the President is likely to be asked to support, a minor bill to subvert the Doctrine of States' Rights. It would cast aside not only the concept of Federalism, but also the concept of equity and fair play.

H.R. 1983 would prohibit the States from using the unitary apportionment method in arriving at the income earned within each State by foreign-based and other multinational corporations. Since so many of the co-sponsors of this bill are on the Ways and Means Committee, I am especially pleased to explain our position with regard to this issue.

It seems to me that the question is not whether there is merit to the use of the unitary method. The question as to its merits should be decided by each and every state. And that is the point. On November 7, 1981, the Western Governors' Policy Office, of which California is not a member, voted unanimously to oppose the bill and its companion in the Senate. Their resolution said:

"We reaffirm our support for the states' rights, guaranteed under the Constitution, to levy taxes to support important public services. This right becomes even more significant as we continue to work with the President to sort out the proper roles and responsibilities of the state and federal governments.

"The President has urged that revenue sources along with additional responsibilities be returned to the states. While no specific proposals have yet been made by the Administration for accomplishing this goal, we will work closely with the Administration to examine workable options, especially in view of the fact that federal aid reductions will increase the pressure on many severely strained state budgets.

"We believe that any federal legislation or other effort that would restrict, direct, or diminish state taxation policies, methods or laws would be inconsistent with efforts to sort out responsibilities with the New Federalism. In addition, it would represent a serious abuse of the Doctrine of States' Rights. We oppose new federal restrictions on state taxation."

In the late 1960s, legislation was introduced that is very similar to that which is now before this Committee. At that time, Governor Reagan wrote to members of the California Congressional Delegation, saying:

"Federal intervention in state tax matters is objectionable in principle."

At least there is something with which Ronald Reagan and I agree.

Last year's sweeping decisions came in haste and considerable confusion. The traditional debate and analysis by the Congress was abandoned to improvised budgets and improvised legislation. I urge you to think and plan and observe the effects of last year as the next wave of undoing is proposed. In the only truly believable words uttered by David Stockman—". . . sometimes sheer reality has a sobering effect."

Thank you.

Mr. PICKLE. The Chair would want to observe first, Mr. Cory, we thank you for your very straightforward, if not blunt comments about us great people from Washington.

We people from Washington have come here to try to see what suggestions you people from California can give us.

I have observed, though, that we in this country have engaged in an orgy of spending since World War II and we will not get our house in order.

Then you state, you passed proposition 13 in California, and that didn't work, and the same people that passed that are trying to pass the snake oil message in Washington.

What is going to work?

What is your suggestion? I appreciate that your statement has not been read in its entirety.

Do you have any suggestions for us, not that it isn't working, but what do we do? What do we take back that will be helpful to the Nation?

Mr. CORY. You have the option of running deficits. That is a policy question that you can decide whether or not you wish to have a deficit and, if so, when. I do not believe that a deficit per se is necessarily bad at the Federal level.

A chronic deficit, I think, is the problem, and trying to say to all people, defense contractors, health care providers, poor and the unemployed, that we are going to solve all of your problems forever isn't going to work. There is that much truth in the so-called conservative Reaganomics.

If we are going to cut, I am concerned about the cheap-shot cuts coming out of the administration, which nobody is willing to belly up to the bar and say to the health care providers, we are not going to pay you that much money and we are still holding out the hope of universal health care to everybody, but at the same time cutting back nickels and dimes mechanically, without saying it is a matter of policy—no, we are not going to do that, because we are going to contract for you, and reduce all these requirements.

The Governor made some suggestions about his request for health on imposing a 6-percent limitation on hospital cost.

You can't just deal with those formulas and not deal with the substance behind those formulas, and the administration in Washington is more prone to look at those formulas and tinker with them rather than the reality and seeing whether it is a doctor, a hospital owner or a poor person. No, we are going to change the way it has been offered to you in the past, but they ought to take that leap.

Mr. PICKLE. What members wish to be recognized? Mr. Downey.

Mr. DOWNEY. Do you have any estimate on the revenue loss to the State of California from business bankruptcies, small business bankruptcies?

Mr. **Cory**. We don't have that. We look at the figures on a current basis.

We were off close to some $50 million in bank corporation tax in the month of December alone. Whether that is total slowdown, bankruptcies or late pay, we don't know. We have our own tax.

Mr. **Downey**. Is there an effort in the State to match the cuts and depreciation on the personal side?

Mr. **Cory**. Those are independent policy decisions, and some things we conform to, although there tends to be an independent attitude on the part of the State legislature in looking at those things, whether they wish to do them as a policy matter at the time.

Mr. **Downey**. What impact do you think the all-savers certificates had on the marketability of California issues? What is your bonding rate now?

Mr. **Cory**. We have not been to market with a GO bond. We have not been to market on general obligation bonds.

We tend to be debt free, except for the veterans bond program, and we have some statutory limits.

We have been having trouble marketing many of our programs in the 10 to 11 percent tax-exempt range because the market will not absorb them.

The all-savers has had some minor effect on that, although the high interest rates generally are also exacerbated.

Mr. **Downey**. Thank you.

Mr. **Pickle**. Mr. Gephardt.

Mr. **Gephardt**. Two quick questions. First, as you know, the Democrats in Congress last year in the budget had a budget that called for a substantially lesser deficit than the budget that we passed that the President recommended, and I think it would have resulted in lower interest rates today if we had passed that.

The Democrats had a budget that had a lower deficit. We lost.

My question is, do you think that it is important not only for the Federal Government's budget, but for State government budgets, that this year we try to arrive at a budget that has a lower deficit than was proposed last year?

Mr. **Cory**. If the interest rate isn't brought down, we in California are not going to see automobile and home sales, which are a significant part of our economy.

Mr. **Gephardt**. If the economy does not work here, your State budget is going to be in trouble.

Mr. **Cory**. Exactly right, and it is rolling forward now into other industries, and the farming industry, which is a major part of the California economy as well, is being significantly adversely affected by interest rates, and dealing with the interest rate question is probably the quickest way to recovery, from my vantage point.

Mr. **Gephardt**. If we don't get the interest rates down, the State of California will be in trouble?

Mr. **Cory**. That is my view. When we look at State borrowing, et cetera, we are up against a situation that is only going to get worse. That is why I lament your difficulty, but that interest rate has got to be solved in some fashion.

Mr. **Gephardt**. The President said with the tax cuts, there will be a lot of revenue sources at the State level, that the States can then pick up through State taxes, I suppose, and take care of their own State budgetary problems. What do you say about that point?

Mr. CORY. If the President and his advisers are sincere in their position, then I have trouble accepting the mixed message. We are going to lower taxes here, and you raise them there. That is a mixed message to the economy. If you try to tell it, hey, we are going to get going by tax reduction, that is a false goal.

To the extent it has any validity, it is going to be offsetting and defeat the purpose of the claims.

Second, the experience here in California has not indicated if you reduce tax burdens the economy is going to do any better. Taxing the housing industry any more does not produce any more revenue.

Mr. GEPHARDT. High interest rates are taxed, too.

Mr. CORY. Yes. At the same time, it gets back to the question of limiting the State's ability to impose these taxes. It is, to me, outrageous, here when President Reagan was Governor of this State, he wrote letters to Congress saying, You shouldn't do that. States rights demand that we have that capacity, and yet this same administration is working through what I consider nefarious means to keep us from raising those taxes. Those mixed messages, whether Wall Street is receiving them or we in government are receiving them, are hard to decipher.

Chairman ROSTENKOWSKI. Mr. Rousselot.

Mr. ROUSSELOT. Thank you for your statement.

Many of us agree with you that government at all levels has engaged in orgies of spending and they have not very carefully been controlled.

I was fascinated by your comment that spending people's money, then giving it back to them in taxes, isn't always the way to go.

The prime rate in the last 2 months under President Carter was 21 percent, and it is now down to 16 percent. It should come down further.

The problem is with the Federal Reserve Board.

Inflation has also come down. We place mandates on State governments that make it very difficult for them to institute savings.

You mentioned SSI recipients. You are prevented from auditing them.

Mr. CORY. We are prevented from auditing what the Federal Government does with our money. We are participants, and we don't know what they did with the money.

Mr. ROUSSELOT. Do you have specific recommendations to save money in that area?

Mr. CORY. Allowing the States to conduct independent audits.

We do not resent the Federal Government conducting their audits, that we think the turnabout is fair play, we should have the capacity to audit the federalized SSI/SSP program. Somebody that does not have the line responsibility for running those programs is likely to raise some serious policy options that might save money. Those questions could be helpful in the long run.

Mr. ROUSSELOT. Many of us think we should have the freedom to do that.

You mentioned how important it is that the Federal Government not be competing in the marketplace for money. We now have a trillion dollar deficit, which you know would have been larger if we had not reduced some of those expenditures.

That deficit was accumulated, and none of that can be created without the votes of Congress, as you know.

We have had a democratically controlled Congress for many years that keeps voting for those.

How much of a factor is that for you when you try to market government bonding, et cetera, and have to compete with the Federal Treasury, which is out there marketing all kinds of debt security, much of which has been created by the Congress?

Mr. CORY. I think that that is a significant problem. To quantify it, it is difficult to do.

It is my personal view that it is probably, this is an unscientific, intuitive feeling.

Mr. ROUSSELOT. You are out there doing it.

Mr. CORY. There is probably as much as 2, 2½ points on our borrowing.

You are a better credit risk than the State. It is easier for you to borrow. You can print the money, we can't.

Mr. ROUSSELOT. You think that Governor Brown is right, that we should work for a balanced budget and do it as quickly as we can?

Mr. CORY. That is a valid goal to head toward.

Mr. ROUSSELOT. We have talked about it for years and never gotten there.

Mr. CORY. True.

Mr. ROUSSELOT. Where would you save money in the Federal Government on the spending side?

Mr. CORY. The isolation of the defense budget is one we can no longer continue to afford. The overall framework of a democratic society, the defense budget has to take its share of the cuts, and I say that having been trained as a midshipman.

Mr. ROUSSELOT. That represents about 24 percent of our total Federal spending. Where else would you cut?

Mr. CORY. In terms of the social programs that we have, as opposed to emphasizing the formula cuts, the mechanical cuts that are antiseptic, that you don't have to deal with thorny policy issues, you would be better served by diving into that thicket.

Mr. ROUSSELOT. Does that include entitlements? Would you reindex some of our entitlements?

Mr. CORY. How do you wish to provide services to those people that need them?

In the field, one of our greatest problems is health care benefits here at the State level, medical program.

I think that we need to look at what are we trying to accomplish and how can we efficiently accomplish that.

I keep being reminded of the fact, you hear a lot about welfare chiselers, but I don't know of anybody that goes out and contracts cancer to collect Medi-Cal.

They are upper class constituencies that are providing those services. How can we run this system to provide that health care at a realistic cost?

You have to start changing things and get those providers in and see what they can live with and hammer out a decent program, what services are you going to provide and how are you going to go about it without hurting people?

Mr. **Rousselot**. We can engage in deficit financing. Do you agree with Governor Brown that we need a constitutional amendment to mandate that we balance the Federal budget except in time of war?

Mr. **Cory**. We disagree on that.

Mr. **Rousselot**. Thank you.

Chairman **Rostenkowski**. Mr. Rangel.

Mr. **Rangel**. I don't understand the line of questioning of my colleague, Mr. Rousselot. The question of a balanced budget is merely a goal.

Talk about cutting entitlements and the defense budget, I am concerned about the poor, and we are concerned as a committee as to what impact have the existing budget cuts had on the poor.

You say the buck stops here in Sacramento. We are going back again in February, and the President is asking for additional cuts, notwithstanding the overwhelming deficit that he is bringing to the Nation, and I am asking, what is the State of California prepared to do when you are mandated to have a balanced budget, to deal with the problems of the poor, the aged, and is the State of California prepared—and I am assuming the corporate structure and the churches and the synagogues as well—prepared to assume the responsibility?

Mr. **Cory**. Given our current fiscal position is in no position to assume that burden, it is just not there.

Mr. **Rangel**. The question as to what we do, how we cut, whether we should cut, or whether we have a balanced budget, is a question for us to decide in Washington. Some people have assumed that the best way to handle it is to cut services for the poor. I am not associated with that group in Congress. I came here to find out as a result of what has been done, what has been the impact on the poor in the State of California?

Mr. **Cory**. The basic burden of the cuts that have thus far occurred have been on the poor and the proposed cuts that did not occur, the ones that were proposed early on in the Reagan administration would have been more cuts on those lease able to afford it.

Mr. **Rangel**. The private sector or the churches, have they come forward to provide for the needs of the sick and the poor?

Mr. **Cory**. In the printed statement, there is a statement there that the private sector, which I have toiled and made a few dollars in the private sector and don't wish it any ill will, but it is absolutely bizarre to think that United States Steel, which can't compete with Japanese steel, that spent $7 million to acquire Marathon, that they are the same financial wizards who are basically consigning themselves to a decaying industry, are going to come out and solve our welfare problem for us. That is nonsense.

The private sector here in California, I don't see the trickle-down theory actually working. They seem to be suffering from the same problems in terms of health care costs that we are.

They can't control their employee benefits package on health and welfare benefits.

I don't see that that is a solution to the have nots.

Mr. **Rangel**. Thank you. Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Mr. Bailey.

Mr. **Bailey**. Thank you, Mr. Chairman.

I want to thank you for your openness and excellent testimony.

I disagree with you about the role of the tax code. I sometimes look like a hypocrite, we are going to throw the baby out with the bath water with Reaganomics, and not provide the reinvestment that this country needs to supply that productivity that you are interested in.

I am sure you disagree with me, given your remarks about United States Steel. I agree with you, it is asinine to think some of the so-called supply-side changes that we ought to make are going to have some kind of immediate effect. That cannot happen.

It will take 10 to 15 years to reinvest basic plant and equipment in this country to get us back to the world edge that we enjoyed in the past.

One of the things that I would like to ask you about, because I am in total agreement with you on spending priorities—indexing.

I feel very strongly it was a very foolish mistake, a political plum offered to pick up a couple of votes in Washington.

What effect has it had in California? It is very difficult for me to understand how it could have done anything but cut the revenues and put more pressure on this State's tax base and spending priorities to make it much more difficult to provide the kind of services, afford opportunities to the needy.

Mr. **Cory**. Full indexing is $1.7 billion in lost revenue.

Mr. **Bailey**. $1.7 billion in lost revenue.

In the face of the decline in Federal revenues and providing moneys to you, and looking at the indexing in a couple of years at the Federal level, you also, your State tax base you lost $1.7 billion in 1 year.

Mr. **Cory**. I mean, it is a staggering problem which the political tie is such that it is difficult to cope with, but it is a false hope because the political rhetoric surrounding it, we are going to get government off your backs and the private sector is going to solve the problem. If it is going to solve it, it will be over a long period of time, and we were promising from this wonderful elixir, a cure that is not possible.

The patient is going to die of something else before that takes effect.

Mr. **Bailey**. The administration's policies—I happen to agree with you, it has been unproductive.

Mr. **Cory**. You need to constantly monitor what you want the economy to do and adjust those. Once you put the advantage in the code, then the status quo tends to perpetuate and it may be that we don't need that any longer.

We should look at that as opposed to indexing to solve the problem.

Chairman **Rostenkowski**. Mr. Martin.

Mr. **Martin**. Thank you very much.

I thought I understood you to say that revenues in California have declined since proposition 13. You mean they have not gone up as fast.

According to information given us, State revenues went up 48 percent since proposition 13, 1.4 times the inflation rate and 100 percent since the Brown administration, 1.6 times the inflation rate, so you didn't mean to say they have gone down.

Mr. CORY. Had we not enacted both through the initiative and the legislative process, we could have collected $47.5 billion more in revenues, had we not made those adjustments.

Mr. MARTIN. OK, I presume you would be better off if you had collected those revenues.

Mr. CORY. That is a debatable point. If we are going to continue to spend at the old rate, we are certainly not going to be better off.

Mr. MARTIN. I put a relatively easy ball before the Governor and would ask you the same thing. As bookkeeper, which would hurt the State of California the most, for the Federal Government to cut back $2 to $4 billion as we have done on the budget cuts, or for proposition 13, which your people approved 2 to 1, to cut back $6 to $8 billion a year. Or would it be better to balance the Federal budget by raising income taxes an additional $150 billion faster than they are going to rise over the next few years, which would cut Californians' disposable retained after-tax income about $15 billion a year? What would be better?

Mr. CORY. I am still a believer that four is——

Mr. MARTIN. Smaller than eight. Well, I was hoping you would agree.

Mr. CORY. There are some other questions.

Mr. MARTIN. With regard to other revenue sources, you are not going to get all that much out of excise taxes.

What about deregulating natural gas and putting a windfall profit tax on that? Would that be a good source of revenue for us?

Mr. CORY. I have never been a great advocate of gas regulation, although I would suggest in the entire petroleum field, take the expenditure, about a third to a half of the expenditure of the Department of Energy and give it to the Antitrust Division with some people who are interested in enforcing the antitrust laws in this Nation rather than the kinds of people who have been there for the last few years and you won't need regulation.

I believe very strongly the marketplace is a very fine regulator and have for some time. I happen to believe in Adam Smith, but he advocated the concept in which there was free ingress and egress to the marketplace.

That must be reestablished in the gas industry, before you deregulate. To do one without the other is a false goal.

Mr. MARTIN. If you believe in balancing the budget, do you believe we can balance the budget by raising taxes faster? We have tried that, and it didn't work.

Mr. CORY. I believe in balancing a State budget. We cannot print money.

Mr. MARTIN. You want us to do the same thing, of course?

Mr. CORY. Make your own decision on that. There are pluses and minuses. I said openly a few moments ago, having on a cycle an unbalanced budget is not per se bad at the Federal level.

Mr. MARTIN. Over the span of time, but we have not done that either. Taxes have gone up 1.7 times the inflation rate, and we still couldn't balance the budget.

We are not going to balance the budget by raising taxes faster. We have tried it. It failed.

Chairman **Rostenkowski**. Mr. Matsui.

Mr. **Matsui**. Thank you for your time today. You discussed the unitary method of taxation. We have legislation in the Ways and Means Committee that would prohibit States from doing that. What would be the fiscal impact on the State of California for this year and next year if we passed this unitary tax legislation?

Mr. **Cory**. We would lose just under $500 million a year. Of course, there are those who say, yes, you gain it back with the same concept of the Laffer curve. That does not occur, and it also, it furthers the Federal system that we are supposed to be involved in.

Mr. **Anthony**. I continue to hear that some on this committee say the only way we can balance the budget is to cut spending, and I have already itemized the total amount of expenditures we have cut out of the Federal budget in the last 18 months. If we are not going to go into the entitlement programs and continue to have peacetime increases in the defense spending above inflation of approximately 7 to 10 percent, would you advocate that we cut out all of the rest of Government?

Because as I understand the numbers, we would have to cut out spending, all spending for judiciary, legislative, and all spending for executive. We would have to eliminate nearly all of the rest of the Government in order to have a balanced budget if we don't look at the revenue side. That is not realistic.

Mr. **Cory**. It is not realistic.

Mr. **Anthony**. Not even politically feasible.

Mr. **Cory**. I am not sure what is today, but we better start solving some problems.

Mr. **Anthony**. The executive branch will not offer legislation that will put itself out of business.

Mr. **Cory**. Rest assured, the judiciary will take care of themselves.

Mr. **Anthony**. We hear others talking about the problems that have been caused when we eliminate programs that provide employment opportunities, training programs that provide opportunities for the disadvantaged to gain full-time employment, elderly and disadvantaged, and yet we say we have not cut deep enough.

That is not either realistic economically or politically feasible. If we are going to be realistic about it, we have to start looking at some of the tax elements that you mentioned in your testimony. I thank you for being realistic about it.

Mr. **Cory**. We look forward to your solutions because we need them.

Chairman **Rostenkowski**. Mr. Russo.

Mr. **Russo**. I would like to clear up a comment.

Is the gentleman from North Carolina publicly stating now for the record that he is not going to support this administration's new program which would deal with a $100 billion deficit through tax increases?

Mr. **Martin**. Did I say I will not support the administration's program?

Mr. **Russo**. I got the distinct impression you do not believe in deficits nor do you believe in tax increases, and I think that is the next program coming out of this administration.

Mr. **Martin**. The gentleman stated it correctly, and I point out that the gentleman from Arkansas has stated my position fairly clearly, too.

We do need to cut the social programs, which have grown four or five times faster than the inflation rate.

Mr. **Russo**. I wanted to clear the record, and this is the first time in the 8 years that I have been in Congress that we have had a President who has significantly cut the budget but somehow figured out a way to increase the deficit.

We have to figure out a way of cutting the budget and balancing it at the same time, and you cannot do it when you cut $45 billion out of the domestic programs that help needy people and stick more money into the defense program to blow up the rest of the world.

Chairman **Rostenkowski**. The Chair would like to caution the audience. You are guests of members of the Ways and Means Committee of the House of Representatives, and there are rules that provide that there will be no demonstrations either for or against any person's testimony.

Mr. **Russo**. I yield.

Mr. **Downey**. President Reagan has only slowed the growth of Government spending in the social area. He has not cut it. No. 2, he has transferred the savings from the cuts in social programs to the military.

He is not reducing the size of the Federal Government as a percentage of GNP very much. He has transferred money from the poorest of the poor to finance a military machine that seems insatiable.

We should get away from the notion that this man is interested in cutting budgets. He is not.

Mr. **Russo**. We have gone from subsidizing people to subsidizing corporations, because the Alaska pipeline vote is an indication that the corporate giants no longer want risk-taking. They want the Federal Government to bail them out of the risks.

We are taking the poor people, with whom we made a mistake over the years in giving them too much and probably should have moderated our approach, but what we have done now is said OK, we are not going to take care of you and take care of all these big people who no longer want synthetic fuels because gas prices are high enough.

Who wants to buy $18 gas once they get it somewhere—well, I wanted to clear up the record, because the gentleman from North Carolina indicated he does not like tax increases or deficits.

Chairman **Rostenkowski**. Thank you, Mr. Cory, very much.

Mayor Isenberg, Mr. Schabarum, Mr. Gregorio, Mr. Perez, and Mr. Aroner.

Welcome, gentlemen. Identify yourselves.

If your statements are much longer than your time limitations, we will enter your entire testimony in the record, and it will be made part of the record.

Mr. Mayor, begin.

STATEMENT OF HON. PHILLIP L. ISENBERG, MAYOR, SACRAMENTO, CALIF.

Mr. Isenberg. I have brief formal comments, and I will summarize those comments.

First, welcome to Sacramento. I hope that after your 2-hour hearing now on the general problems, we can draw your attention to specific examples of the effects of Federal action.

I will draw your attention to the cities and the cities' agencies, and I note later in your hearing you will be making site visits which will relate directly to the testimony I give you.

Let me refer you first to the Sacramento Housing and Redevelopment Agency, funded by the Federal Government, handling redevelopment housing activities.

One example of the reduction has been in the elderly nutrition program. The Sacramento Housing and Redevelopment Agency operates an elderly nutrition program which serves hot, nutritious lunches to over 975 seniors, 5 days a week. The program also delivers approximately 150 meals each weekday to low-income, homebound elderly, as well as providing referral services for seniors.

Federal cutbacks have had a significant impact on this program. Eight CETA positions have been lost. Cuts in funding under the Older Americans Act totaled some $70,000. Loss of these funds resulted in the elimination of four full-time permanent positions in addition to the eight CETA positions mentioned before. The 12 percent reduction in the Older Americans Act included in the President's new budget will force direct cut-backs in meals for elderly persons, leaving many with no choice but to live in convalescent homes or other long-term care facilities. Proposed cutbacks in the food stamp program will only increase the need to provide meal service for the very low-income elderly.

The Camellia City Center, which you will be visiting this afternoon, is another program for the low-income elderly which has been severely impaired by Federal budget actions. The center, funded with both public and private funds, serves downtown seniors with drastically limited incomes. People without family, many of them residents of downtown hotels, the inner-city poor elderly are among the most vulnerable groups in our population. The center once used CETA personnel to do outreach work and to provide seniors with referral for adult protective services, supplemental security income, and the like. The CETA workers are gone now, and the outreach and visits to the clients are severely limited. The results are far from pleasant.

For example, a hotel manager came to the center recently and reported that one of his tenants, an 84-year-old woman, had not been seen for some time, and asked that someone from the center visit her in her room. When the center director was finally able to make a visit, she learned that the woman's social security benefits had been discontinued due to a computer error, it reported that she had been dead for 6 months, and the woman had ceased buying food and eating. Hospitalization was arranged, her social security problems resolved, but today she must live in a convalescent hospital.

Another elderly woman who made regular use of the center's transportation services suddenly stopped showing up for a ride. The driver made a home visit one evening on her own time and found the woman dead—a 72-year-old cancer patient who died alone and in pain.

Nor are the consequences of program cutbacks limited to the elderly. They are felt as well by the poor, the frail and infirm, the unemployed, minorities, and the young. Unfortunately, the problems are so widespread that merely redesigning social and human service delivery systems, revising eligibility criteria, or beefing up a couple of programs here and there will make no ultimate difference.

The real problems we face—and the ultimate solution—lie in the revitalization of the American economy. In order to control inflation, we have embarked upon a program of economic recovery which has been nothing more than an orchestrated slowdown in economic growth. The economy has indeed slowed down. There are 9,298,000 Americans unemployed today—more than at any time since 1939. Growth has been stifled so much that we are in the middle of a recession.

For economic forecasters and policymakers, recession is merely the bottom side of the business cycle, regarded by some as a necessary evil to combat inflation. But for many people—for the elderly closeted in dingy hotel rooms, for the young family unable to make ends meet or to buy a home, for construction workers out of work because of a calculated slowdown in the housing industry, for middle-aged workers suddenly jobless because of plant closures, recessions are the end of the American dream—recessions are, indeed, the stuff of American tragedies.

There are no solutions—not in the long run—to the kinds of problems facing us today, unless an active, vital, and aggressive program of economic development is undertaken by all levels of government. Such a course of action must properly begin at the Federal level. If we continue to seek economic recovery through planned slowdowns and recessions; if the budget is once again to be balanced on the backs of the poor and the middle-income; if inflation is to be curbed only by heaping additional hardships on the lives of the elderly and the infirm; then you will continue to hold hearings such as this, trying to decide how best to distribute dwindling and inadequate resources to a growing population of needy Americans.

We have come a long way from that time in our history when President Coolidge proudly proclaimed that "the business of America is business." It is unthinkable that the priority of the Nation's policymakers will continue to be the health of large corporations and the defense industry at the expense of the health and well-being of her people.

I fully realize that the problems facing the economy will not be easily resolved and perhaps I am being idealistic. But I am reminded of the words of Woodrow Wilson, who once remarked that when people called him an idealist, it was proof that he was an American. "America," said Wilson, "is the only idealistic nation in the world." We need to draw deeply from our history of idealism and from our heritage of humanism as we face the problems which beset us today.

Are the private sector and the churches stepping in to shoulder the burden?

Can we expect that someone else will do what government should be doing?

Community-based organizations in Sacramento County in 1977 through 1978 had 353 jobs available to them, primarily CETA jobs. Today there are none. In that period there were $3.5 million combined with United Way funding of $2.3 million, total $5.8 million.

United Way funding in 4 years has increased less than 40 percent, and does not begin to match the need, let alone makeup for the amount of money that is being withdrawn by the Federal Government.

You asked me about the impact of Federal cutbacks on people. I hope that I have given you some idea of how they affect Sacramentons.

The impact is dramatic, and injures people and programs of all types.

[The prepared statement follows:]

STATEMENT OF HON. PHILLIP L. ISENBERG, MAYOR, SACRAMENTO, CALIF.

Chairman Rostenkowski, Congressman Matsui, Members of the Committee, as the Mayor of Sacramento, let me welcome you to our City and express my appreciation for being asked to testify before you this morning.

The full impact of federal budget actions on California—on our state and local governments—and certainly on the lives of our people—have not yet been fully realized. But the initial signals are far from encouraging.

We are all familiar with the bare and impersonal statistics:

Total losses to California: One billion dollars, including $700 million in losses to local government.

Reductions of 22 to 25 percent in block granted programs such as Education, Health Services, Social Services, Mental Health, Community Services and Community Development.

Youth and adult job and training programs cut by more than 50 percent.

Public Service Employment—cut by 100 percent.

Housing and Community Development—cut by 40 percent.

What the numbers do not reveal is the impact on the lives of the elderly, the frail, and the poor—most of whom live in cities such as this. Nor do the statistics reflect the interrelation of one program upon another.

For example, The Sacramento Housing and Redevelopment Agency operates an elderly nutrition program, which serves hot, nutritious lunches to over 975 seniors, five days a week. The program also delivers more than 140 meals each weekday to low-income, homebound elderly, as well as providing referral services for seniors.

Federal cutbacks have had a significant impact on this program. Eight CETA positions have been lost. Cuts in funding under the Older Americans Act totaled some $70,000. These funds had been used to provide meals. Additional cuts—now being proposed—will further threaten this program—no doubt forcing some of these elderly persons into convalescent homes and other long term care facilities. Proposed cutbacks in the food stamp program will only increase the need to provide meal service for the very low income elderly.

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For example, a hotel manager came to the Center recently and reported that one of his tenants, an 84 year old woman, had not been seen for some time, and asked that someone from the Center visit her in her room. When the Center Director was finally able to make a visit, she learned that the woman's social security benefits had been discontinued due to a computer error (it reported that she had been dead for six months), and the woman had ceased buying food and eating. Hospitalization was arranged, her social security problems resolved, and today she remains in a convalescent hospital.

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Chairman ROSTENKOWSKI. Mr. Schabarum.

STATEMENT OF PETER F. SCHABARUM, SUPERVISOR, LOS ANGELES COUNTY

Mr. SCHABARUM. Mr. Chairman and honorable members of the committee, thank you for the opportunity to discuss the impact of Federal budget policies on the county of Los Angeles.

First, I want to say that I support President Reagan's efforts to control Federal budget deficits, but the proposed reductions are not sufficient to achieve the goal of a balanced budget. The Federal Government still spends too much money. There should be further reductions in 1983 and subsequent years.

Second, I believe the American people articulated a clear message with Ronald Reagan's landslide election in 1980. They called for less Government; they called for more responsive Government, but at less cost.

Voters in California made these points clear in the last few years by the passage of two major public issues—propositions 13 and 4.

Balancing the Federal budget is one of the Nation's top priorities, according to the American public. They believe deficit spending causes inflation, and they support the President's efforts to cut back Federal spending for both domestic and military programs.

Americans want to create jobs so that ordinary people can make a decent living.

Americans want to control inflation so that ordinary people on fixed income can afford to live, raise their families, and plan for the future.

Americans want to get interest rates down so ordinary people can afford to buy homes.

Everyone can enjoy the benefits that would result from these changes. But to achieve these goals, we must control Federal spending.

The recently enacted Economic Recovery Tax Act of 1981 was a good first step toward the goal of rekindling economic growth. The key to the future, however, is in your hands. The central issue facing Congress is its willingness to carry out the will of the people. The middle class, the poor and elderly, who today suffer from past Federal economic policies, await your response to this question.

In California, counties play a major role in many of the programs which are funded by the Federal budget and which are under the jurisdiction of your committee. Under State supervision, counties administer the aid to families with dependent children program, including AFDC-foster care and AFDC-unemployed parent, and a large portion of the title XX social services program. Counties are also a major provider of health care for medicare patients.

In addition to these programs which are under your jurisdiction, counties administer the food stamp program, CETA, community development block grants, and Community Services Administration programs. At the same time, we are mandated by State law to provide for law enforcement, courts, probation services, criminal prosecution and defense, and fire protection. Moreover, counties provide municipal services to unincorporated areas and regional services such as flood control. In short, counties provide vital Government services in this State.

Even within California, Los Angeles County is unique. We have a population of 7.5 million people and an annual budget of $4.7 billion. This budget exceeds 40 of the 50 States.

IMPACT OF CURRENT FEDERAL BUDGET REDUCTIONS

The Federal budget reductions that have occurred to date in programs under this committee's jurisdiction have not had a major impact on federally funded programs in Los Angeles County. Due to delays in the budget process, carryover funding and contract cycles, we do not expect to see a significant impact on social services and other human service programs during this current fiscal year. I would like to note at this point that the delays that have occurred in the 1982 Federal budget process have made it difficult to predict the amount or effective date of reductions and to start managing the reductions in order to minimize their effect on the community.

These are the impacts which we have been able to identify:

AFDC

As a result of the AFDC changes in the Reconciliation Act, we estimate that in Los Angeles County about 14,500 families, or 7.6 percent of our caseload of 190,500 families, will be terminated from aid. About 38,000 persons will be terminated from aid. In addition, just over 20,500 families—or 48,000 persons—will receive reduced welfare payments. Most of the terminations will be for families with earnings or other income. About half of these reductions have already occurred. There is pending State legislation to implement the remainder of the changes.

FOOD STAMPS

Although the food stamp program is not under your jurisdiction, you may be interested in the impact of the Reconciliation Act on this program. The Federal changes in the food stamp program resulted in termination of about 4,400 households, or 2.1 percent of the 207,700 households now receiving food stamps in the county. These terminations were effective November 1, 1981. As with AFDC, most of the food stamp terminations were for households with earnings or other income.

SOCIAL SERVICES

In Los Angeles County, title XX social services funds are used primarily to provide protective services to abused and neglected children and adults, services to children in foster homes, in-home supportive services to the elderly and disabled to enable them to live at home rather than in nursing homes, and information and referral services.

An estimated 1.2 million persons will use social services in 1981–82. In anticipation of Federal budget cuts and State funding shortfalls, we had to reduce 1981–82 Federal social services expenditures by $16.9 million earlier this fiscal year. In addition, we recently received a further reduction of $6.4 million in Federal social services funds for this year. Overall, our total Federal funding reduction for 1981–82 totals $23.3 million. This represents a staff reduction of approximately 30 percent. In order to adjust to this, we eliminated voluntary placements, reduced supportive and optional service programs, and increased supervisorial ratios. We are confident, in spite of these reductions, we will continue to provide protective services to endangered children, foster care services to children in placement, and services to adults who are in need of protection.

MEDICARE CHANGES

Los Angeles County is a major provider of health services in California. Under California law, counties are required to provide for the health and safety of their entire population and to provide medical care services to their indigent population. In Los Angeles County, we fulfill this obligation and provide services to medicare and medicaid beneficiaries through a county-operated health network of seven hospitals, three comprehensive health centers, and 42 community health centers. Approximately 7 percent of our patients are medicare beneficiaries. Our estimated medicare revenue for 1981–82 is $82.1 million. As a result of the changes in the Reconciliation Act, which limit medicare reimbursements, we project our 1981–82 medicare revenue loss to range from $800,000 to $1.3 million. This amount is not in itself a major loss within our total health services budget of almost $1 billion; however, when added to State limitations on Medi-Cal reimbursements and the totally unreimbursed costs of providing health care to illegal aliens who cannot afford to pay for health care, the Federal reduction aggravates the already severe problems in financing our county health care system.

However, if Congress would enact meaningful immigration law reforms to control illegal immigration, the county could manage the medicare reductions with little impact.

FEDERAL DOMESTIC SPENDING

I recognize how difficult it is to take a firm stand on reducing the massive scope of Federal spending, especially domestic spending. The Federal role in welfare, medical services, social services, subsidized employment, community development, and other services has increased enormously in the past 15 years. This strong Federal presence has become an integral part of America's social fabric. Any change or proposed reduction will meet stiff opposition.

Nevertheless, the Federal response to problems that has evolved over the past two decades has been enormously expensive and totally inappropriate in its approach to social problems. The Federal approach is to drench a problem with money. If there are a few people in real need, a massive program is established nationwide to provide a service to all persons that might appear to fit the description, or formerly fit the description, or potentially fit the description of needy individuals. Now this drenching approach often has the beneficial effect, by sheer weight of numbers and money, of getting some help to the original target individuals who really needed help and were, indeed, without any other resources. But, in addition, hundreds and thousands of other people who could have managed very well on their own also receive the service, and come to expect and rely upon it. What was taken as a convenience is now perceived as a necessity.

In Los Angeles County, for example, almost 1 million persons from a population of 7.5 million receive some form of public assistance.

My written testimony includes two charts which show the growth of the food stamp and AFDC population in the county over the past 15 years. You will note that in 1966 there were 248,000 persons receiving AFDC in Los Angeles County. Today, with virtually the same population, there are 556,594 persons on AFDC—a 124-percent increase.

There needs to be fundamental welfare reform to assist these families to move off the welfare rolls. At a minimum, we must separate those who are employable from those who cannot realistically achieve self-support. We must place greater emphasis on giving employable people the tools and the encouragement to avoid welfare dependency and to strive for self-sufficiency.

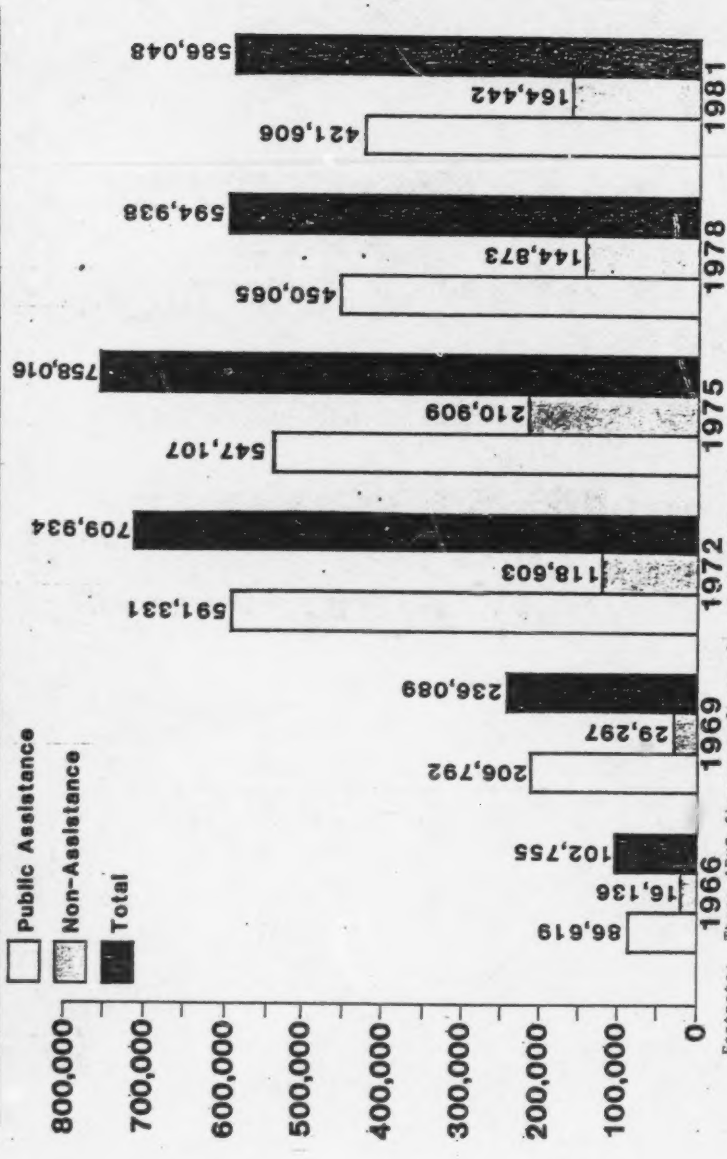
This is not to say there should be no social programs. On the contrary, our society is a generous one and stands ready to assist when misfortune occurs: the child born with multiple birth defects, the mentally ill, the homeless child, the disabled, the recently widowed mother of small children, the helpless aged person, and many others. But current resources are being spread much too thin because of overutilization of Federal assistance programs by people and organizations that should be self-sufficient. The result is that the truly needy are being shortchanged and forced to live with inadequate financial assistance to meet their needs.

In summary, I believe Federal spending can and should be substantially reduced. I believe this can be accomplished without an unreasonable impact on the truly needy. I know you have a tough job ahead. You will have to make difficult decisions which will be opposed by large and vocal constituencies. But, I urge you to make those decisions. All Americans will benefit by them and we can get the Nation's economy back on the right course.

[The charts referred to follow:]

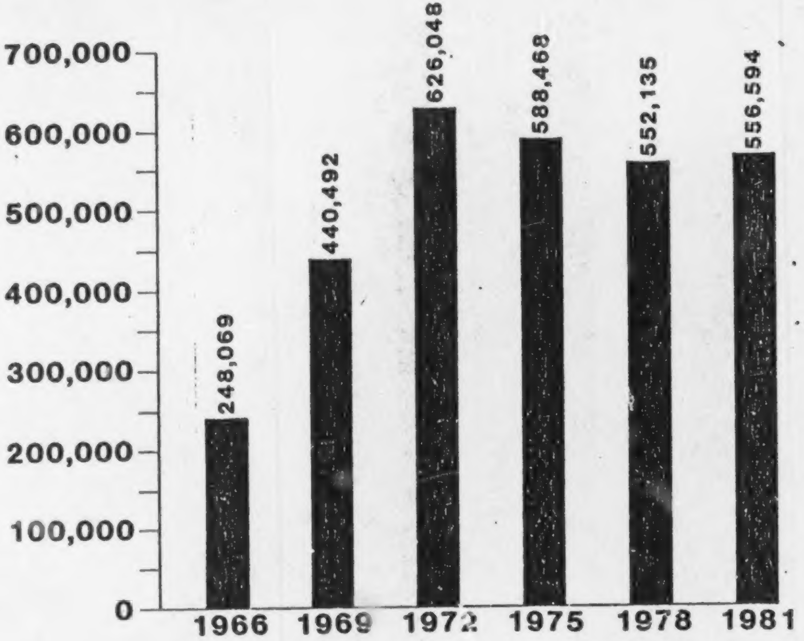
NUMBERS OF PERSONS RECEIVING FOOD STAMPS 1966-81

Includes Public Assistance - AFDC, all other aid types and Non-Assistance Persons



Footnote: These AFDC figures reflect the month of December of each year except for 1981 for which figures are available only through October.

NUMBERS OF PERSONS RECEIVING AFDC 1966-81



Footnote: These AFDC figures reflect the month of December of each year except for 1981 for which figures are available only through October

Chairman Rostenkowski. Mr. Gregorio.

STATEMENT OF ARLEN GREGORIO, SUPERVISOR, SAN MATEO COUNTY

Mr. Gregorio. Mr. Chairman, I am Arlen Gregorio, member of the San Mateo County Board of Supervisors.

You have asked us first to assess the impact of current and proposed cuts. We are going to be a long time doing that, Mr. Chairman. It is really hard to tell now what the fundamental long-term impacts of those cuts will be.

Will there be a reaction to the incentives not to work that many people see in those cuts? How many of the disabled and aged who are now receiving in-home support services are going to be confined to nursing homes at great cost as a result of the unavailability of those services? That is going to take some time for us to know.

There have been serious cutbacks in both of those programs, and you have gotten some numbers from others.

Title XX services, whenever made optional, are being eliminated as a practical matter, and I suspect you probably know that. Examples are employment-related and health-related services, day care and family planning.

The present network of programs that grew up over the last 50 years does work, but it is inefficient. It represents a program that we acquired in the thirties and in the sixties, and I think that we need to reshape it substantially to make it do for us in the eighties and in the nineties.

These programs have many different kinds of eligibility systems, many levels of service delivery of similar kinds of services. We have public and private and local and State and Federal agencies all involved, and I think that there is a substantial amount of room for us to reconfigure those services in a much more coordinated fashion to make them more cost-effective, and to do the same work with some less funding.

To do that, we have got to be honest, very honest with the American people about what we can do and what we cannot do. We cannot promise through medicaid to give mainstream medical care to everyone who is eligible. That simply is not within the possibility of the funds that are available for us on the horizon at any level of government that I see.

We cannot wish away problems and have a meaningful kind of coordinated system—problems like mental health. Our Governor Reagan closed a number of State hospitals, facilities and unfortunately, the theory was that with community facilities those people could be adequately cared for. The community facilities, by and large, never materialized. We still are living with the tragic results of that episode, and it is costing local government and the people involved a great toll.

We need, in order to shape the delivery system, substantially more flexibility than we have had. We need a lot of hard work. We need to make programs work by investing in them, and in turning them around.

We have some promising programs in San Mateo County that fit this description. The California Family Protection Act which relates to abused and neglected children uses as a point of focus for an organized delivery system the juvenile court and the process of declaring abused and neglected children as dependents of the State so as to determine whether or not to put them in foster care.

We found that taking these children out of the home and putting them in foster care has a very profound unsettling effect on the kids and also is very expensive. Half of the people in our prisons were at one time foster children. We can safely keep some of those kids in their own homes if we change the standard for taking them from their parents and if we provide a coordinated network of services that are there to support their remaining in the home in safe conditions. But that takes time to put in place, and money to put in place, and it takes a will to do it.

It took 3 years of that kind of work before our demonstration program started to produce savings, but today, we have reduced the number of kids in foster care in San Mateo County by 25 percent and the length of their stay by 40 percent.

We are experiencing substantial savings, and we are doing it because the State and we were willing to make an investment of time and hard work in putting that program in place.

We have similar kinds of approaches with our human services access system, which is a cooperative delivery system again.

The point of access is those who are seeking grants of various kinds in the welfare system.

We have mental health, county general relief, food stamps, employment development, and a number of different kinds of services, through a common intake point. We are able to divert a substantial number of those people into employment or other services and make it unnecessary for those people to get into the welfare system on cash grant programs. We also have an employment preparation program run jointly by the county and the State. A couple of different agencies at the State and county level participate, along with providers, to address the AFDC system. Applicants for grants are trained to understand what employability they have, and how to market their skills to get a job quickly. Our experience in 5 months so far in that program has been to more than double the number of AFDC recipients that have been employed. That works only in areas where there are jobs. We are blessed with low unemployment in my county.

That is a lot of hard work, detail work, and it involves being really honest with people about what we can and what we cannot do.

I think that the Federal Government probably has tried to do too much at times in the past. I think that the Federal Government needs to do what it is best suited to do.

You can engage in deficit financing from time to time. It would be nice if you got out of that mode occasionally. You do have the best revenue source, and you are capable of addressing the economy as a whole. I think that you ought to concentrate, No. 1, on those programs that relate to managing the economy, and No. 2 on those programs that maintain a defensible minimum standard for a safety net for the most truly needy of our citizens. At a time when mobility of people is increasing and our society is becoming more and more impersonal, localities have an incentive not to address the needs of many of these people. When that happens, their needs usually increase and they become even more expensive charges at a later time. It is a little like asking localities to cooperate in providing for the national defense. Each one wants the other to take care of the problem first.

More cuts will really hurt us, I think. Local government in California has no taxing authority of its own. Since proposition 13, our discretionary taxing authority has essentially ceased. We are totally dependent on what the legislature gives us, and dependent to a large extent on a buoyant real estate market, because we have a fixed amount of dollars allocated historically after the enactment of proposition 13 with which to deal with all of our problems. Some of the mandates from the Federal level that still exist give us additional headaches in trying to manage the cuts that have come.

I do not think we can manage additional cuts, but I think that it is possible for us with a coordinated delivery system to make some progress.

Chairman **Rostenkowski**. Mr. Perez.

STATEMENT OF LIBRADO PEREZ, SOCIAL SERVICES DIRECTOR, ALAMEDA COUNTY

Mr. **Perez**. Mr. Chairman, I am Librado Perez, director of social services for Alameda County.

This is indeed a unique period in our history during which positive change can take place. I am hopeful that in our effort to achieve economic stability, we do so with the least possible harm to those who are totally dependent upon us, through no fault of their own, for their well-being.

In short, I am hopeful that the administration and Congress will insure that our Nation's social safety net does, indeed, remain intact.

I understand and support the fact that health and social services programs must be made less costly, where possible. However, I oppose hasty program reductions that will unduly burden poor and elderly in this country.

I fully support changes that will bring about administrative efficiency; however, I am opposed to modifications that will shift a disproportionate share of costs to county government. Additionally, it is critically important that State and local governments be given adequate time to implement any changes in the various programs.

Local governments are the governments of last resort and will be held accountable for basic life-sustaining services. I support in principle the package of AFDC and child support enforcement program changes contained in the President's program for economic recovery. I, as well as many of my colleagues, have long advocated changes that would contribute to better managed programs and reduced administrative costs.

As you are no doubt aware, the California legislative and legal climate has postponed full implementation of the Federal program changes.

January 1 of this year saw approximately 2,000 families in Alameda County either discontinued or receiving a grant decrease.

This is out of a total caseload in my county of 26,000—5 percent of the State total AFDC population.

In Alameda County, the regulation change that had the greatest impact in terms of the client population was the eligibility limitation of 150 percent of gross income based upon the State need standard.

This change made ineligible approximately 1,350 AFDC families with employment income. It is, as yet, too early to tell what the impact will be on these families with limited financial resources.

In the social services area, I am in favor of block grants that leave decisions about programs to the local level where the services are delivered.

The title XX program has been a block grant since 1972, when it was enacted with a spending cap of $2.5 billion. California was at the ceiling in 1972 and has experienced a steady erosion of the buying power of these dollars.

In my own county, Alameda, in 1970 we were spending slightly over $1 million for 1,100 social worker positions to provide the essential services that title XX paid for.

By 1981, this work force had shrunk to 312 social worker positions costing $535,000, while both the population of the country and the number of recipients eligible for the services increased; we estimate that the number of eligible persons has increased by 40,000 during that period.

In other words, we are trying to provide the same essential services to one-third more people with one-third the staff we had in 1970.

This illustrates, I believe, the "bare bones" nature of service delivery under existing title XX funds.

The 25-percent reduction can only hurt people—people who depend on a caretaker to keep them from living in an institution, people who abuse their children and want help to become adequate parents, and the children who are the victims.

For those children, we look forward to new Federal support authorized under Public Law 96-272 to augment the thin layer of services we provide under title XX.

Yet, it is my position that if either title XX or the new Public Law 96-272 are not fully funded, we must oppose any mandate to implement those child welfare, foster care, and adoptions reforms for lack of funds.

The Federal Government must recognize that title XX already is a block grant, and as such, has achieved any savings that can be brought about by consolidation and administrative simplicity.

Adequate funding would be a recognition by Congress that the Nation is lacking in regard to foster care and saw fit to appropriate new funds specifically to rectify the programs uncovered. And it would be consistent with the administration's desire to perserve a safety net for needy people in its pledge not to shift costs for essential services to local governments.

In an attempt to anticipate changes in program focus and reductions in funding, my department has been working actively over the last 2 years with the board of supervisors, advisory commissions, and various affected community organizations to prepare for the time when basic social services are redefined. The agency is implementing a three-phase contingency program to address these programs: Phase I—phase out client provisions of optional social services provided by the Social Services Agency. This was accomplished by December 31 of last year.

Phase II—phase out optional purchase-of-service contractors; preplanning for reducing mandated social services, both direct and contracted.

Phase III—make corresponding reductions in mandated and support social services.

The objectives are to avoid general layoffs and to maintain basic mandated social services that are critical to the community. To date, we have been successful in avoiding major staff reductions.

Thank you for this opportunity to present my views to your committee.

Chairman Rostenkowski. Thank you, Mr. Perez.

Mr. Aroner.

STATEMENT OF DAVID C. ARONER, EXECUTIVE DIRECTOR, SERVICE EMPLOYEES INTERNATIONAL UNION, LOCAL 535, AFL-CIO

Mr. Aroner. My name is David Aroner, executive director of Service Employees International Union, Local 535, AFL-CIO. SEIU represents more than three-quarters of a million workers in the United States and is the largest union representing health care and social service workers in California and the Nation.

SEIU Local 535 represents more than 10,000 social service and health care workers employed by California counties, cities, and a wide range of private agencies under contract with local and State governments.

Local 535 and other SEIU locals represent a majority of California county workers who administer the AFDC, food stamp, and medicaid programs. Our members also provide social services to children, the aged, and to other adults who cannot cope with the everyday pressure of modern living.

We represent not only the employees of public welfare and social service programs, but those employed in residential treatment centers for emotionally disturbed children, halfway houses for adults who might otherwise be forced to enter or return to State mental hospitals, and programs to aid the developmentally disabled to lead more normal and productive lives.

We represent home care workers who assist the aged and disabled to remain in their homes, as opposed to more costly and less humane nursing homes or hospital care.

Our union has already seen members laid off, demoted, or transferred to other programs where their skills are lost to those who need their assistance. For example, in Los Angeles County, more than 500 probationary employees of the Department of Social Services were summarily terminated following passage of the 1981-82 Federal budget.

A hiring freeze has been in place for 9 months and over 120 experienced and trained children's services workers have been reassigned to AFDC eligibility work in an effort to cope with the departmentwide budget shortfalls. The remaining children's services workers no longer provide preventive services for children who are in imminent danger of physical or sexual abuse. Those children in need of their help must now wait until they are abused or neglected to a point requiring police intervention.

In Contra Costa County in the east bay, close to 70 social worker positions have been eliminated. The entire information and referral program has been shut down.

The in-home supportive services staff who certify eligibility for the home care program and see that the services paid for are in fact delivered has been decimated. Social workers who help arrange child care and other support services so that welfare clients can enter and remain in the work force have been laid off or reassigned.

In San Francisco, 155 positions in the social service department have been defunded. The most severe cutbacks have been in the programs which provide protective services to adults and children.

Licensing workers whose job it is to develop new foster homes have been cut 60 percent; this in the face of a chronic shortage of foster homes in San Francisco.

Workers are now placing children as far as 100 miles from the city. With such distances, it is not possible to provide the kind of backup support foster parents need to care for physically disabled children or those with severe emotional problems.

San Francisco's long-term placement program has been reduced by more than 50 percent. In this program, social workers visit children placed in institutions and provide counseling and other assistance so that they may return to their families or to noninstitutional placement at the earliest opportunity.

Since many of these institutions are also facing cutbacks, it is unrealistic to assume that the institutions will replace the social work services formerly provided. County social worker visits to San Francisco children in institutional care are being reduced from a monthly schedule to twice yearly.

The result of these cutbacks will mean longer institutional care at greater expense. For those children who are not delinquent, but rather abused or neglected, the result of shifting them from place to place without developing the best permanent care available will be that more of these children will wind up in the criminal justice system.

These added costs will be paid in both social terms and in tax dollars.

Also in San Francisco, the in-home dependency units have had their staffs cut in half. These workers work with the families of abused and neglected children where there is a potential to improve the family's functioning so that the children can safely remain in the home.

These families, as you can imagine, need intensive support and counseling. These programs have an enviable record of success in improving the family environment and reducing admissions to much more expensive institutional care.

San Francisco has also cut back their child protective services by one-third. As in Los Angeles, these units are no longer taking referrals on neglected children. They are now limited to dealing only with cases of actual abuse.

The 24-hour emergency response program to deal with cases of child abuse—although a State-mandated program—is in jeopardy of being wiped out just as it is getting off the ground.

San Francisco's adoption program for hard-to-place children has undergone a total upheaval in staffing as the county scrambles to deal with the sudden loss of funding for these various title XX programs.

San Francisco's Child-Adolescent Sexual Abuse Resource Center, a multidisciplinary and interdepartmental program, has just lost several of its key staff due to title XX cutbacks.

County social workers who have provided virtually the only school social work program designed to keep problem kids in school have been eliminated.

School-funded social workers were essentially eliminated following passage of proposition 13.

Adult protective service programs have not escaped the Reagan/congressional budget ax. San Francisco's unit that supervises board and care homes for the disabled and mentally ill has been cut in half.

Because these board and care homes are profit-motivated, it is vital that social workers monitor them to see that adequate nutritional levels and decent care are provided in a safe environment.

Several of these board and care homes were recently closed down in San Francisco after workers exposed the horrible conditions which existed in some of them.

In Ventura County, north of Los Angeles, not only has the information and referral program been wiped out, but the county's veterans' services program has been reduced from five workers to one half-time position.

Since there is no VA hospital in Ventura County, this program functioned to assist veterans with transportation to and liaison with veterans' services in Los Angeles.

We now have more than 200 home care workers employed under a contract with Santa Clara County who are faced with layoffs February 7. These workers are currently paid with funds provided under title XX to the in-home supportive services program.

Mostly minority women, these workers are now faced with a return to minimum wage employment or welfare, loss of their health insurance and their modest vacation and sick leave benefits, and worse, loss of the dignity that this work has given to them.

This is a direct result of the cutback in title XX funds available to the in-home supportive services program. Statewide, individuals receiving in-home supportive assistance will experience a drastic reduction of this important survival service and the taxpayers will likely wind up paying for more expensive institutional care.

Congress, in approving the President's budget virtually without input from the public or from those who are today giving testimony, has set a terrible precedent for the Reagan government. We are now being told that by mere change of Federal regulation without hearing of any kind, income from SSI recipients who live with an AFDC family will be considered income to the family, requiring a reduction in the AFDC grant or discontinuation from the program. Will Congress allow the Reagan government to get away with this abuse of power?

Again, without congressional approval and, in fact, in defiance of congressional intent, the Reagan government is discussing cutting funding for title V of the Older Americans Act, which has provided for the employment of senior citizens in social service agencies.

Not only will this impact on the employment opportunities of seniors, but it will cut deeply into the ability of these agencies to provide services to our older population.

If the Reagan government believes that the private social service agencies are going to be able to pick up those programs which are no longer provided by government, they are either naive or dishonest.

Long ago, so-called private agencies became dependent on government financing to continue and expand the services they provide.

With every cutback in title XX, the Older Americans Act or other social service or health programs, the public dollars passed through to the private agencies are also cut. These agencies are being asked to compensate for the cutbacks in public-sector programs at the very same time their own funds are also being diminished by actions of the Reagan government.

No amount of volunteer time or private-sector dollars will ever be raised to match the dollars lost due to the cutbacks.

Those who continue in the social service field are facing the bleakest prospects for not only their professions, but most importantly for those they serve and about whom they care.

Working with the destitute, the sick, the disabled, and the mentally ill has always taken a great deal of dedication and stamina.

The Reagan attack on the poor is not new to the members of Local 535 or to Californians. Ten years ago, when Reagan tried to do in California what he has now accomplished nationwide, we were able to rally and to fight.

We could count on the State and Federal courts to overturn his illegal actions. We had the law on our side. All this has changed and the one branch of government that was supposed to represent the people, the Congress, has now let us down and sold us out.

How much longer will Congress tolerate the obscene level of military spending while we are told that we cannot afford decent medical care for the indigent or adequate staff for our mental health programs?

While David Stockman admits that there is up to $30 billion of waste in the military budget, it is nothing short of criminal to cut those programs that our poorest citizens need in order to survive. In a sense, we have turned our massive military machine against our own people.

It is time that the Congress assert itself again on the side of human decency. We need to end this state of war against our own population.

On behalf of the members of SEIU Local 535, AFL-CIO, I wish to thank members of this committee for allowing me to testify before you today.

I want to add for those of you who have pressed for scrutiny of the effectiveness of social service programs that we would like to have the Defense Department subject to the same kind of scrutiny that you have projected for these programs.

I think that is fair, and that waste ought to be cut out if we are really talking about tripling budgets and spending efficiently.

I don't mind our members' programs being subjected to really serious analysis. It does not do our members or anybody else any good to pour money away to programs that don't make sense.

What you have done in Congress is to hold hearings after you have done all the cuts. That is what you are doing now, and I think had you looked at those programs that you were cutting before you cut them, we might have had a different situation.

Thank you.

Chairman ROSTENKOWSKI. Thank you.

Are there any questions?

Mr. GEPHARDT. My question is for Mr. Schabarum. In your testimony, you say that the American people support the President in trying to get down the deficit, and I think that is right.

I think, however, there is confusion about what his policy is creating.

I happen to think that the President's program is creating the most massive deficits we have ever seen, $100 billion this year projected, over $240 the year after next.

Do you think we need to address those problems and if so, do you believe we can only address it through the domestic spending side?

Everybody agrees domestic spending needs to be cut. We will probably do some more.

Do you think we can do that without looking at the defense and the tax side as well?

Mr. SCHABARUM. I would simply share with you what I believe is the right way which is the practice in Los Angeles County.

We have on a program-by-program, department-by-department basis over the years addressed what our service system is, how it can be run more effectively and proceeded to reduce in every department the cost of that delivery system.

Therefore, yes, in my judgment, the deficit position of our Federal budget is simply not acceptable. That budget has to be brought in line. To address that requires this analysis that I mentioned, and I might say including the Defense Department, because, as I think some members of this committee will conclude, there is deplorable waste, duplication, excessiveness throughout all of the activities that are of the Federal establishment, and it is long overdue that that matter be addressed seriously by both the Congress and the administration.

Mr. GEPHARDT. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Russo.

Mr. RUSSO. In your testimony, on page 6, you talk about the Federal approach to trench programs with money.

In the food stamp program, one of the objectives is to eliminate hunger.

How many people would you say in Los Angeles County should be eliminated from the food stamp program, 5 percent, in your analysis?

Mr. SCHABARUM. I certainly could not give you any specific number.

On the other hand, in terms of generalities, it is well known that there have been a number of so-called horror stories over the life of the food stamp program that address the fact that students, bona fide students in college, likewise end up being qualified food stamp recipients.

Mr. **Russo**. When we take testimony, I like to get a balanced viewpoint from both sides. Are you aware that there is an average cost overrun in the military budget, of 112 percent?

Mr. **Schabarum**. I have no doubt.

Mr. **Russo**. All the horror stories are about domestic programs but very few horror stories are heard about the military defense budget. I am not against a strong military personally, but I think it is important to know when you come before the committee, when you say something about trenching the problem with Federal money, that I need specifics.

If the AFDC program isn't working, well, how should we cut it back, 5, 10 percent?

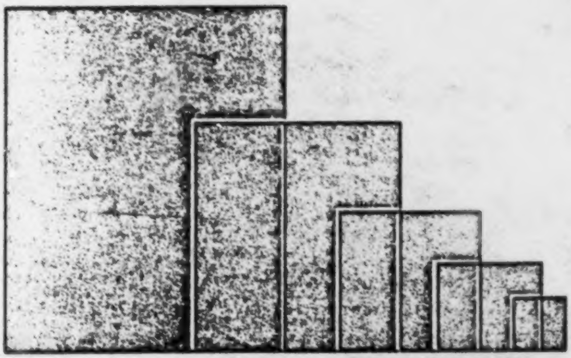
We need guidance from people who work in that particular area and I am trying to take the generalities that you have in your statement and try to pin you down to specifics because that is what we are interested in.

Mr. **Schabarum**. Fair enough. I would only suggest with reference to our health and welfare programs, that the County of Los Angeles for years and years has offered up specific detailed recommendations for this committee and other committees within the Congress to address.

A number of those suggestions were reacted to and reflected in the Reconciliation Act of 1981.

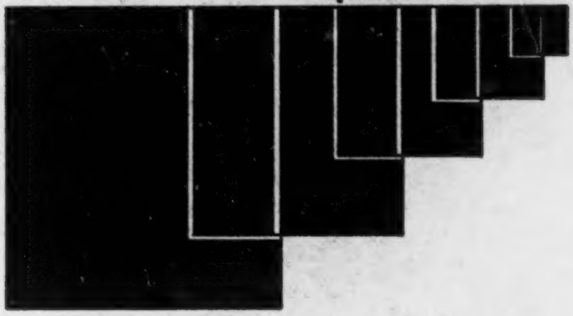
I will be pleased at your request to offer up our redrawn set of recommendations that can be considered by your committee in detail, suggesting further modifications to either the food stamp program or the AFDC program or social services or whatever.

[Material referred to follows:]



Welfare Simplification Proposal

Developed by Los Angeles County
Department of Public Social Services



REQUIRED WELFARE REGULATIONS IN LOS ANGELES COUNTY

INTRODUCTION

The mounting cost of welfare programs during the past decade has generated loud cries from both the public and private sectors for simplification, reduction of red tape and cost curtailments. The current political climate dictates that concerns for change be translated into action.

Today, with the public's mandate for cutting governmental costs, the need for meaningful welfare simplification is even more critical. For example, Los Angeles County has determined that the number of forms required to process an AFDC application, when laid end-to-end, extends for more than 70 feet. By significantly modifying the existing welfare programs, we believe it is possible to reduce the application form to two pages (copy included in attachments) and eliminate 70% of the paperwork currently involved in the process.

Listed below are a number of basic concepts which we believe would drastically simplify the administration of the welfare programs:

-- Cash out food stamps for public assistance cases.

-- Establish common definitions for family unit, income and resources, budget periods and procedures for all programs.

-- Drop mandatory school attendance or work registration requirements for all 16-17 year old children.

-- Include all members of the household as part of the family budget unit, and use all income in determining the grant.

-- Develop computer systems for obtaining welfare recipient information.

-- Provide for maximum gross income limit.

-- Eliminate the recent labor force connection requirement of the AFDC-U Program.

-- Establish standard allowances for work-related expenses.

-- Develop a comprehensive informational packet containing clients' rights, responsibilities and program eligibility requirements.

-- Establish an ongoing review mechanism for simplification of the welfare system.

An explanation of these ideas follows. Admittedly, many of these ideas are not new, having been included in the various welfare reform packages which have been presented to Congress.

Perhaps the most significant change recommended is the cash out of food stamps for welfare recipients. It is felt that Congress has already taken a step toward cash out by eliminating the food stamp purchase requirement. Thus, taking the final step of converting the food stamp bonus to cash would eliminate a major duplication of work and significantly simplify the programs for the administering welfare agencies.

Another of the basic concepts is to eliminate the numerous program "exceptions" which affect a minimal number of people but create major complications in welfare administration. As complexities are eliminated, we can anticipate a "snowballing" effect which will favorably impact the fiscal burdens currently experienced by the taxpaying public. The simpler the program, the fewer forms and controls that are necessary, the greater the direct input to the computer for automated eligibility and grant determinations, and hence the greater accuracy in the payment system.

In summary, this list is not all encompassing, but it does point to some areas which can readily be corrected. These proposals for simplification will not only reduce paperwork and administrative costs at all levels of government, but can also aid in more effective detection of fraud and permit better service to those utilizing the programs.

CASH OUT FOOD STAMPS FOR PUBLIC ASSISTANCE CASES

The most significant single change which would simplify welfare administration is the cash out of food stamps for public assistance recipients.

The major goal of the Food Stamp Program has always been to raise the level of nutrition among low-income households. Yet, because of the morass of duplicate paperwork and complex eligibility determinations required to qualify for both AFDC and food stamps, millions of dollars must be spent unnecessarily on administrative costs to achieve this goal.

Currently, because of the differences in the laws and regulations governing these two programs, a welfare worker serving one recipient must apply two completely different and often contradictory sets of regulations. Therefore, it is proposed that counties be permitted to determine the average food stamp benefit issued to AFDC households, based on income and household size, and to then increase the AFDC grant to include this average payment. This would enable counties to eliminate the costs involved in food coupon issuance, duplicate eligibility determinations, and illegal trafficking in food stamps.

In summary, cash out of the Food Stamp Program for public assistance recipients would substantially reduce the amount of paperwork, administrative costs, and potential for program errors while benefiting both clients and welfare agencies.

ESTABLISH COMMON DEFINITIONS FOR FAMILY UNIT, INCOME AND RESOURCES, BUDGET PERIODS AND PROCEDURES FOR ALL PROGRAMS

Currently, the Federal government has different eligibility rules and definitions for the Aid to Families with Dependent Children, Food Stamps, Medicaid, Aid to the Potentially Self-Supporting Blind, and refugee assistance programs.

Rules regarding budget periods, treatment of income, definitions of property, residence, administrative procedures, etc., vary widely. For example:

-- Real property used as a home is excluded from the property limits in the Food Stamp Program but not in AFDC.

-- AFDC uses a different method of budgeting income than either the Food Stamp or Medicaid Programs.

-- Certain loans and/or grants are excluded from income in the Food Stamp Program but not AFDC.

Federal regulations for programs providing financial assistance to the same general population should be identical wherever possible. Common definitions for family unit, income and resources, budget periods and work requirements would significantly simplify welfare administration and reduce cost without adversely affecting basic assistance benefits.

DROP MANDATORY SCHOOL ATTENDANCE OR WORK REGISTRATION REQUIREMENTS FOR ALL 16-17 YEAR OLD CHILDREN

Current Federal regulations require periodic verification of school attendance for 16-17 year old children. If a parent is unable to verify school attendance for a 16 or 17 year old, the child is ineligible for Federal AFDC unless he registers with the Employment Development Department. This is a cumbersome and costly system which merely involves a paper shuffling exercise between the schools, EDD and welfare agencies, with little effective result.

This system is costly, not only for the welfare agencies, but for the school districts. Currently, many of the schools do not have the staff to handle the volume of verifications requested in a timely manner. This, in turn, limits the agency's ability to apply the current regulations. Further, those children who do not have verified school attendance can remain eligible for AFDC by merely registering for employment with EDD. Unfortunately, due to the lack of employment opportunities, this requirement results in no real employment for such youngsters.

Persons under the age of 18 are legally considered dependent children and should be aided on the basis of need, not on the basis that they have met what amounts to "paperwork" requirements. States and local jurisdictions should be allowed the option to waive the Federal requirement for school attendance verification for 16 and 17 year old children. Further, Federal regulations should be modified to allow states to waive work registration for 16-17 year old children not attending school when it is determined that the job market or training programs are not available to provide a reasonable opportunity for employment.

This change would result in substantial administrative savings for the schools, EDD and welfare departments by eliminating the unnecessary exchange of paper between these agencies when it is evident that the chance for real employment for these youths is remote.

INCLUDE ALL MEMBERS OF THE HOUSEHOLD AS PART OF THE FAMILY BUDGET UNIT, AND USE ALL INCOME IN DETERMINING THE GRANT

There are different regulations determining the grant for cases containing stepfathers, unrelated adult males, unmarried fathers, 18 through 20 year old siblings and other household members who are "essential" to the eligible children. Not only is each of these regulations complicated, but the problem is compounded by the fact that the workers have to know each of the complicated requirements in order to handle the individual case situation. In reality, these actually become "sub-programs" to the Aid to Families with Dependent Children Program.

Further compounding the problem, the definition of a household can vary widely from program to program. In some situations, the applicant for a household can determine who should be included and who should be excluded. Currently, the same group of people living together can receive AFDC as one family unit but receive food stamps as more than one household.

Individuals who live together in a household ordinarily share expenses and pool their resources. Therefore, all individuals in a case should be considered part of the same household and their income should be used in determining eligibility and benefits for all Federal programs. If an individual is ineligible to receive aid or benefits, e.g. due to alien status, countable income of the excluded individual would be reduced by the amount of his/her needs, using a simple formula.

A standard method of determining eligibility, grants/benefits in all cases would save administrative expenses, lower quality control error rates, and may result in lowering aid costs by preventing members of a household with high income/resources from excluding themselves from the aid case.

DEVELOP COMPUTER SYSTEMS FOR OBTAINING WELFARE RECIPIENT INFORMATION

Inaccurate reporting and computation of both earned and non-earned income is one of the major causes of error and fraud in welfare programs. Currently, the worker must verify earned income and each of the different types of non-earned income through various manual systems. The sharing of information among Federal, State and local governments would significantly improve eligibility determination and reduce welfare costs.

The States and local administering agencies have been blocked in efforts to obtain data from Federal records which would simplify administration of mandated programs. Computer information from Federal agencies such as the Social Security Administration would be a valuable tool in identifying welfare fraud. The matching of computer files is simpler and more efficient than individually reconciling information from agencies such as (but not limited to) SSA, VA, CETA, banking/credit institutions or private health insurance carriers. Use of computer matches is more timely and less expensive than manual verification since it eliminates the need for client contact and independent collateral verification and reduces workload.

This computer program should be standardized in order to match information reported by applicants/recipients with data from governmental jurisdictions. This system would allow county welfare departments to determine if an applicant/recipient is aided under more than one aid program or in more than one county or State. Furthermore, client awareness of automated income/benefit checks should serve as a fraud deterrent.

PROVIDE FOR MAXIMUM GROSS INCOME LIMIT

Current AFDC regulations regarding the treatment of income are complex and often inequitable. A recipient with a large work expense can continue to receive welfare while having a substantial gross income. This is due to Federal requirements to not only provide an incentive payment but consider all work expenses related to the employment. In some cases, only a small amount of the gross income will actually be used to reduce the aid payment.

Since the treatment of earned income varies by program, a maximum gross income limit should be established as an eligibility test for AFDC, refugee and Food Stamp Programs. For example, a maximum gross income limit of 150 percent of the poverty level could be set. This approach would eliminate some of the current inequities in the system and assist in reducing program complexities.

ELIMINATE THE RECENT LABOR FORCE CONNECTION REQUIREMENT OF THE AFDC-U PROGRAM

Regulations currently require that an unemployed parent be unemployed for at least 30 days prior to the receipt of aid, and that he/she establish recent connection with the labor force. The parent must have six or more quarters of work within a 13-calendar-quarter period ending within 1 year prior to the application for aid or have received, or have been eligible to receive, Unemployment Insurance Benefits within one year prior to the application for aid.

Determining whether a parent is eligible to the Federal AFDC-U Program is a complicated process involving a detailed review of past work history and Unemployment Insurance Benefit eligibility and unnecessary paperwork.

The purpose of the AFDC-U Program is to assist unemployed parents to obtain gainful employment, while providing public assistance so they are not forced to leave their families to qualify them for aid.

Therefore, the complex requirements for establishing Federal AFDC-U eligibility should be eliminated. Families where both parents are unemployed should be aided on the Federal AFDC-U Program so long as the parents are participating in an appropriate employment program.

ESTABLISH STANDARD ALLOWANCES FOR WORK-RELATED EXPENSES

Currently, when determining net income for AFDC purposes, workers must calculate all mandatory deductions and expenses, including child care. This process is often quite complicated since many expenses must be converted from weekly or bi-weekly amounts to a monthly figure. For Food Stamps, a national standard percentage deduction for work expenses and a maximum child care allowance must be applied.

Local agencies should be permitted to develop and implement a non-rebuttable standardized work expense allowance and a separate, standardized child care allowance for employed recipients of AFDC, Medicaid, Food Stamps and the refugee assistance programs. Only the gross earnings and need for child care would have to be reported by the recipient.

This proposal would eliminate the need for multiple computations using different rules on cases receiving more than one type of benefit (e.g. AFDC and Food Stamps), and eliminate monthly verification and calculation of each individual work-related expense now required on most cases. Full computerization of benefits would be possible, thereby dramatically saving staff time, expediting determinations of eligibility, and reducing errors.

Local jurisdictions should set the amount of the standard deductions because child care and other work expenses very widely from area to area.

DEVELOP A COMPREHENSIVE INFORMATIONAL PACKET CONTAINING CLIENTS' RIGHTS, RESPONSIBILITIES AND PROGRAM ELIGIBILITY REQUIREMENTS

The Eligibility Worker is now required to give all applicants a wide variety of forms and notices which explain the application process, the client's rights and responsibilities, other programs or services available, and which outline the eligibility factors and/or resources which must be verified.

A packet should be developed to ensure that all clients receive complete information regarding the program for which they are applying in a simply written informational format.

In order to maximize the usefulness of such a packet, the various areas of information necessary for the recipient to know should be presented in sections. For example, one section of the packet would inform the applicants of the actions that must be taken to establish and verify eligibility (registration for employment, proof of citizenship or legal alien status, application for social security number, exploration of resources, etc.). This section could include tear-out pages that could be returned to the agency as proof of compliance with the various eligibility requirements.

Another section of this packet could serve as a reference tool for clients in helping them understand their ongoing rights and responsibilities. This section should clearly state the client's responsibility to alert the agency to those changes in circumstance which would affect their overall eligibility or the amount of their benefits. This would, we believe, be a significant aid in reducing those incidences in which clients fail to report the information necessary to ensure that they receive the level of benefits to which they are legally entitled.

ESTABLISH AN ONGOING REVIEW MECHANISM FOR SIMPLIFICATION OF THE WELFARE SYSTEM

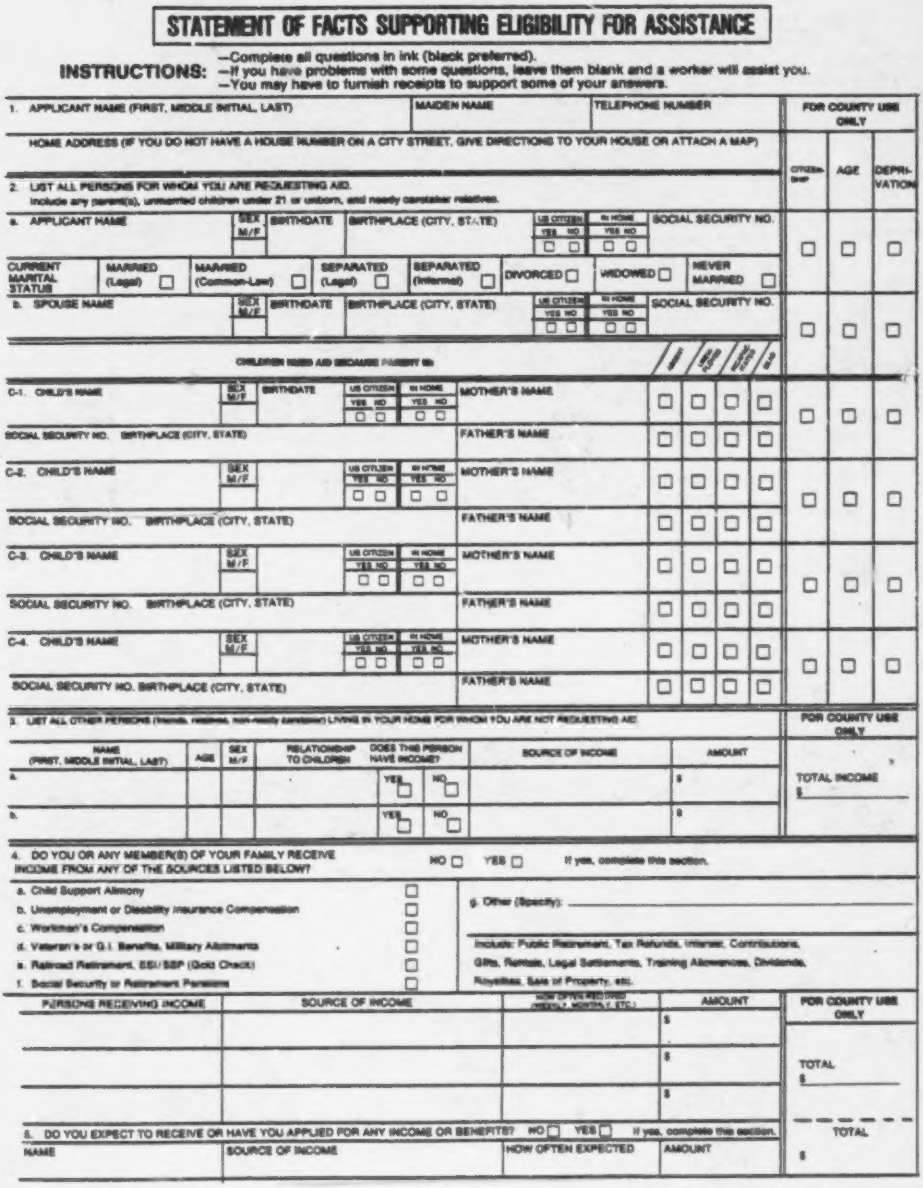
A formalized structure for ongoing review and action needs to be established to maintain the goal of simplification.

All existing and proposed laws and regulations need to be reviewed to determine whether they add to or reduce program complexities. We should eliminate those requirements that affect few cases yet complicate the administration of welfare.

The previous ideas presented are merely the beginning concepts for welfare simplification. We also need to review such program areas as child support, foster care, statistical reporting, program monitoring and fraud detection.

In addition, we must continue to explore additional use of the computer for eligibility and budget computations, management controls and reports.

ATTACHMENTS



STATEMENT OF FACTS SUPPORTING ELIGIBILITY FOR ASSISTANCE

INSTRUCTIONS:
—Complete all questions in ink (black preferred).
—If you have problems with some questions, leave them blank and a worker will assist you.
—You may have to furnish receipts to support some of your answers.

1. APPLICANT NAME (FIRST, MIDDLE INITIAL, LAST)	MAIDEN NAME	TELEPHONE NUMBER	FOR COUNTY USE ONLY		
HOME ADDRESS (IF YOU DO NOT HAVE A HOUSE NUMBER ON A CITY STREET, GIVE DIRECTIONS TO YOUR HOUSE OR ATTACH A MAP)			CITIZENSHIP	AGE	DEPRIVATION

2. LIST ALL PERSONS FOR WHOM YOU ARE REQUESTING AID.
Include any parent(s), unmarried children under 21 or unborn, and needy caretaker relatives.

a. APPLICANT NAME	SEX M/F	BIRTHDATE	BIRTHPLACE (CITY, STATE)	US CITIZEN YES ☐ NO ☐	IN HOME YES ☐ NO ☐	SOCIAL SECURITY NO.	☐	☐	☐
b. SPOUSE NAME	SEX M/F	BIRTHDATE	BIRTHPLACE (CITY, STATE)	US CITIZEN YES ☐ NO ☐	IN HOME YES ☐ NO ☐	SOCIAL SECURITY NO.	☐	☐	☐

CURRENT MARITAL STATUS	MARRIED (Legal) ☐	MARRIED (Common-Law) ☐	SEPARATED (Legal) ☐	SEPARATED (Informal) ☐	DIVORCED ☐	WIDOWED ☐	NEVER MARRIED ☐

CHILDREN NEED AID BECAUSE PARENT IS:

							[illegible]	[illegible]	[illegible]	[illegible]			
C-1. CHILD'S NAME	SEX M/F	BIRTHDATE	US CITIZEN YES ☐ NO ☐	IN HOME YES ☐ NO ☐	MOTHER'S NAME		☐	☐	☐	☐	☐	☐	☐
SOCIAL SECURITY NO.	BIRTHPLACE (CITY, STATE)				FATHER'S NAME		☐	☐	☐	☐			
C-2. CHILD'S NAME	SEX M/F		US CITIZEN YES ☐ NO ☐	IN HOME YES ☐ NO ☐	MOTHER'S NAME		☐	☐	☐	☐	☐	☐	☐
SOCIAL SECURITY NO.	BIRTHPLACE (CITY, STATE)				FATHER'S NAME		☐	☐	☐	☐			
C-3. CHILD'S NAME	SEX M/F		US CITIZEN YES ☐ NO ☐	IN HOME YES ☐ NO ☐	MOTHER'S NAME		☐	☐	☐	☐	☐	☐	☐
SOCIAL SECURITY NO.	BIRTHPLACE (CITY, STATE)				FATHER'S NAME		☐	☐	☐	☐			
C-4. CHILD'S NAME	SEX M/F		US CITIZEN YES ☐ NO ☐	IN HOME YES ☐ NO ☐	MOTHER'S NAME		☐	☐	☐	☐	☐	☐	☐
SOCIAL SECURITY NO.	BIRTHPLACE (CITY, STATE)				FATHER'S NAME		☐	☐	☐	☐			

3. LIST ALL OTHER PERSONS (friends, relatives, non-needy caretaker) LIVING IN YOUR HOME FOR WHOM YOU ARE NOT REQUESTING AID

NAME (FIRST, MIDDLE INITIAL, LAST)	AGE	SEX M/F	RELATIONSHIP TO CHILDREN	DOES THIS PERSON HAVE INCOME?		SOURCE OF INCOME	AMOUNT	FOR COUNTY USE ONLY
a.				YES ☐	NO ☐		$	TOTAL INCOME $
b.				YES ☐	NO ☐		$	

4. DO YOU OR ANY MEMBER(S) OF YOUR FAMILY RECEIVE INCOME FROM ANY OF THE SOURCES LISTED BELOW? NO ☐ YES ☐ If yes, complete this section.

- a. Child Support Alimony ☐
- b. Unemployment or Disability Insurance Compensation ☐
- c. Workman's Compensation ☐
- d. Veteran's or G.I. Benefits, Military Allotments ☐
- e. Railroad Retirement, SSI/SSP (Gold Check) ☐
- f. Social Security or Retirement Pensions ☐

g. Other (Specify): ____________________

Include: Public Retirement, Tax Refunds, Interest, Contributions, Gifts, Rentals, Legal Settlements, Training Allowances, Dividends, Royalties, Sale of Property, etc.

PERSONS RECEIVING INCOME	SOURCE OF INCOME	HOW OFTEN RECEIVED (WEEKLY, MONTHLY, ETC.)	AMOUNT	FOR COUNTY USE ONLY
			$	TOTAL $
			$	
			$	

5. DO YOU EXPECT TO RECEIVE OR HAVE YOU APPLIED FOR ANY INCOME OR BENEFITS? NO ☐ YES ☐ If yes, complete this section.

NAME	SOURCE OF INCOME	HOW OFTEN EXPECTED	AMOUNT	TOTAL
				$

6. ARE YOU OR MEMBERS OF YOUR FAMILY 14 YEARS OR OLDER PRESENTLY WORKING OR GOING TO BE WORKING WITHIN THE NEXT 2 MONTHS? NO ☐ YES ☐ If yes, complete this section

a. NAME OF PERSON WORKING	NAME OF EMPLOYER	INCOME BEFORE DEDUCTIONS $	CHILD CARE COST $ WHILE WORKING
b. NAME OF PERSON WORKING	NAME OF EMPLOYER	INCOME BEFORE DEDUCTIONS $	CHILD CARE COST $ WHILE WORKING

FOR COUNTY ONLY USE
GROSS $ ——
LESS CC $ ——
NET $ ——

7. DO YOU OR MEMBERS OF YOUR FAMILY HAVE ANY OF THE FOLLOWING RESOURCES? NO ☐ YES ☐ If yes, complete this section

a. Savings account ☐	e. Life Insurance (Cash Value) ☐	i. Trust Fund ☐
b. Checking account ☐	f. Burial Insurance ☐	j. Notes, Mortgages ☐
c. Money or checks on hand ☐	g. Credit Union deposits ☐	k. Trust Deeds, Sales Contracts ☐
d. Motor Vehicles ☐	h. Stocks, Bonds, Certificates ☐	l. Other (Specify)

TYPE OF RESOURCE	CURRENT VALUE OR DOLLAR AMOUNT	NAME AND ADDRESS OF BANK, LEGAL OWNER, ETC.

CRV $ ——
Vehicle $ ——
Other $ ——

TOTAL NET VALUE
$ ——

8. DO YOU OR YOUR FAMILY OWN OR USE PERSONAL PROPERTY ITEMS OR FURNISHINGS WHICH COST AT LEAST $100 FOR EACH ITEM, OR ARE NOW WORTH AT LEAST $100 (including gifts) NO ☐ YES ☐ If yes, complete this section

Include such things as employment rehabilitation items (inventory, tools, machines, etc.) and other personal property (livestock or fowl, jewelry, boats, campers, trailers, musical instruments, recreational equipment, power tools, etc.).

PERSONAL PROPERTY ITEM	IF GIFT, CHECK	PURCHASE PRICE	PURCHASE DATE	AMOUNT OWED	NET MARKET VALUE
a.	☐	$		$	$
b.	☐	$		$	$

TOTAL VALUE
$ ——

9. DO YOU OR YOUR FAMILY OWN OR IN THE PROCESS OF BUYING REAL ESTATE (INCLUDING YOUR HOME) OR DO YOU OWN OR SHARE TITLE TO LAND OR BUILDINGS? NO ☐ YES ☐ If yes, complete this section

a. TYPE (land, home, apt, etc.)	USE (home, income, investment, etc.)	ADDRESS OR LOCATION	
NAME(S) OF OWNER(S)	MORTGAGE COMPANY	ASSESSED VALUE $	AMOUNT OWED $
b. TYPE (land, home, apt, etc.)	USE (home, income, investment, etc.)	ADDRESS OR LOCATION	
NAME(S) OF OWNER(S)	MORTGAGE COMPANY	ASSESSED VALUE $	AMOUNT OWED $

FOR COUNTY USE ONLY
a.
AV: $
—E:
NV: $
b.
AV: $
—E: $
NV: $

10. DO YOU OR YOUR FAMILY HAVE PRIVATE MEDICAL HEALTH INSURANCE OR HAVE HEALTH INSURANCE BENEFITS THROUGH PRESENT OR PAST EMPLOYER, UNION OR EMPLOYEE GROUP? NO ☐ YES ☐ If yes, complete this section

PERSONS COVERED	NAME OF INSURANCE COMPANY	PREMIUMS PAID BY (NAME)	AMOUNT PAID	HOW OFTEN PAID
a.			$	
b.			$	

I AM AWARE OF THE POSSIBILITY OF CRIMINAL PENALTIES FOR MISREPRESENTATION OR CONCEALMENT OF FACTS WHICH DETERMINE MY ELIGIBILITY.
I DECLARE UNDER PENALTY OF PERJURY THAT THE FOREGOING STATEMENTS ON THIS FORM ARE TRUE AND CORRECT.

SIGNATURE (OR MARK) OF APPLICANT	DATE SIGNED	COUNTY WHERE SIGNED	SIGNATURE (OR MARK) OF SPOUSE OR OTHER PARENT LIVING IN HOME	DATE SIGNED	COUNTY WHERE SIGNED
SIGNATURE OF WITNESS, INTERPRETER, PERSON COMPLETING THIS FORM FOR RECIPIENT, OR WITNESS TO MARK	DATE SIGNED	COUNTY WHERE SIGNED	ELIGIBILITY WORKER'S SIGNATURE	DATE SIGNED	

11. FOR COUNTY USE ONLY—ELIGIBILITY DETERMINATION

A. ELIGIBILITY FACTORS	B. ELIGIBLE PERSONS	C. EFFECTIVE DATE	D. DENIAL/DISCONTINUANCE
1. DEPRIVATION REQUIREMENTS 2. AGE, CITIZENSHIP 3. INSTITUTIONAL STATUS REQUIREMENTS 4. NET NONEXEMPT INCOME LESS THAN MBSAC 5. BELOW PERSONAL PROPERTY LIMITATIONS 6. BELOW REAL PROPERTY (ASSESSED VALUE LESS ENCUMBRANCES) LIMITATIONS	CODES	EFFECTIVE DATE OF AID (CASH GRANT) OR CONTINUING ELIGIBILITY ESTABLISHED (REDETERMINATION) DATE	DATE REASON CODE
	ELIGIBILITY WORKER'S SIGNATURE		DATE

Mr. **Russo**. I appreciate that.

Mr. **Rangel**. Do you believe the Federal Government should have any role at all in providing supportive services for the sick, the aged, the poor, or should that be the role of local government and the private sector?

Mr. **Schabarum**. I believe that as long as the Federal Government has tapped the taxpayer of this country to the degree that it has, that certainly a portion of those dollars should be returned to the public in one area, in social services and welfare, yes, I do.

Mr. **Rangel**. Assuming that there is anything left to cut in terms of taxes and the President decides to cut further, allowing the States and local government the option to pick up that tax reduction on their own, would you believe that the Federal Government would have no role at all in providing support services?

Assuming that the State had the ability to raise taxes and the Federal Government got out of the business of taxing, would you then believe that local and State government should be providing the services, and that the Federal Government should be out of medicaid, medicare, and social security and let those of you on the firing line handle those problems the way you see best?

Mr. **Schabarum**. That isn't a realistic set of assumptions you put forward.

Mr. **Rangel**. Neither is the President's economic package, but I just want to find out that when you believe, as badly as we bungled it up, should we be moving toward a goal where those decisions, as to who is poor, who is sick, who needs services, should be within the town supervisors and the mayor's authority, rather than those of us in Washington?

Mr. **Schabarum**. I don't think the establishing of a welfare program should fall to a local jurisdiction, city or county. At a minimum, it would fall to State governments with regard to its establishing the policy.

The administration, however, is something else again. I would point to the county, their ability to manage effectively their very large welfare programs that are mandated to be administered by counties in this State, either from the Federal or State government.

Mr. **Rangel**. I know you are quite proud of the job you are doing, and you are satisfied at the results of those substantial cuts your political subdivision will take, the cuts that you expect the Congress to do in the future, that none of the poor are falling through the cracks, that your sick are being taken care of, those who need job training are getting it, and the hot meals are provided to the aged, and that no one is falling through the safety net in your county.

Mr. **Schabarum**. I don't think I made that representation, Congressman.

On the other hand, I do believe as this cycle unfolds, there may well be people that fall through the cracks.

I, however, suggest to you most sincerely that there are other factors that you in your role must consider.

For instance, the monetary policies of this country, I believe, can be considered to be questionable.

The dollar in this country isn't what it used to be.

The inflation rate that has been before us in recent years has impacted on those very same poor and needy that you just addressed to the extent that they have far less purchasing power than we did a few years ago, a few months ago. If that is not of concern to this committee, then I will be very surprised.

Mr. RANGEL. It is difficult for them to understand, however, that cutting their services is really in the long run helping them, but I understand the thrust of your testimony.

Mr SCHABARUM. I know that you understand, sometimes the short term is necessary to achieve the long term.

Mr. RANGEL. I know that. They don't.

Mr. SCHABARUM. Particularly when we got to the point where we are today.

Mr. ROUSSELOT. Thank you. Each of you gentlemen. All of you are on the firing line in implementing many of the programs that we enact, and I thank you for coming here with specific ideas, ways we can improve the programs that we impose upon you and/or somehow legislate in which you must participate.

Mr. Schabarum, you did give us some specifics about ways that you have tried to make savings in food stamps, and it is in the testimony. I will say to Mr. Russo, and he will probably now want to look at the charts he didn't get a chance to look at.

You mention on page 7 of your testimony,

> But current resources are being spread much too thin because of overutilization of Federal programs by people in organizations that should be self-sufficient.

Does that apply to some of the programs that we give to you to spend money on?

Mr. SCHABARUM. Well, I thought I made the point, Congressman, while the population of Los Angeles County has been relatively constant since 1966, the expansion in the total caseload has increased 124 percent.

Mr. ROUSSELOT. That is a little higher than inflation.

Mr. ANTHONY. Do you have any explanation for that? Will you yield, sir?

Mr. ROUSSELOT. Yes.

Mr. ANTHONY. I was shocked. Yet there is no explanation for the increase.

Mr. SCHABARUM. I thought I indicated that one reason is the fact that the scope of the AFDC program has been broadened in terms of those that now qualify because of the eligibility rules.

Another factor is that California has been the focal point for lots of people coming into this total State, and we get our share.

Mr. ROUSSELOT. I know that all of you represent counties or organizations that supervise programs, a very substantial part of what we do.

Mr. Perez, I was interested in your statement that you do favor block grants that leave decisions about the programs to the local level where the services are delivered.

Do you think our enacting, you mentioned title XX is already a block grant program, in the way we write the law, can you make specific suggestions of ways that we could give you that freedom to implement those block grants any more efficiently?

Mr. **Perez**. Congressman, in terms of the regulations, I think that that has been done. My line of reasoning to do with the funding level which really in California, we have experienced a block grant situation for almost 10 years, and my point was to the effect that there is a need to review and ascertain precisely what are the services programs that are necessary and fund them sufficiently.

Mr. **Rousselot**. Thank you, all of you, for your statements.

Chairman **Rostenkowski**. Mr. Matsui.

Mr. **Matsui**. You seem to support the President's economic program, at least from the testimony that we have available to us. You indicated that you would like to see the Defense budget cut and some additional cuts in social programs. That seems to be the drift of your testimony, in addition to the $39 billion we have already cut. Is that correct?

Mr. **Schabarum**. The specifics of my response, in my judgment there are a number of things that the Congress and the administration ought to address in terms of bringing its budget into balance.

It would be a total assessment of all of the programs, including those programs within this committee's jurisdiction, to review.

Mr. **Matsui**. A little like the Carter proposal of zero-based budgeting and that is something the Federal Government should do.

You didn't address the tax cut side. In view of the fact you are so concerned about the deficit and you feel that that appears to be the main cause of inflation, do you think there is any need to look at the possibility of rescinding the individual tax cuts or the business tax cuts that we instituted in July of last year?

Mr. **Schabarum**. At this juncture, not only has the budget that was adopted last July not been fully put in place in terms of actual dollar allocation by the Congress being consistent with those budget actions, but likewise the tax bill you refer to has hardly had an opportunity to have any impact come from it.

Mr. **Matsui**. It has had an impact. It is the reason for the very high interest rates we have, because most people on Wall Street are concerned that the deficits are going to cause a massive crowding out of private money and so they are keeping those interest rates high. It has had an impact, but not the one the President expected.

Mr. **Schabarum**. From my point of view, again the impact is somewhat early in terms of——

Mr. **Matsui**. You are not at this time prepared to recommend to the Congress or to anybody that we should pare back some of those tax cuts that we instituted in July?

Mr. **Schabarum**. I am not.

Mr. **Matsui**. You are saying it has to come out of additional social and defense spending. How much would you like to take out of defense, for example?

Mr. **Schabarum**. I think that if the entire Federal budget could be addressed to simply stay within inflation, it would be a major 1-year step in the right direction.

Mr. **Matsui**. The President would like to increase the defense budget for 1983 by about 15 percent. Would you want to take about 8 percent of that so as to recommend an 8-percent cut?

Mr. **Schabarum**. Certainly wouldn't be a bad point of beginning.

You and I know, Congressman, that the Defense Department, as well as all other Departments of the Federal bureaucracy spill more every year than most of us at a State or local level.

It wouldn't be a bad idea if somebody made a move toward collecting or begin collecting a major portion of the legitimate bills that the Federal Government has outstanding, and I mean, a range from those moneys lent from foreign governments that are long due, including and collecting, for instance, substantial billions of dollars that have accrued as a result of student loans that have been put out.

Mr. MATSUI. Mr. Rangel asked you the question whether or not you feel anybody has fallen below the safety net. Fourteen thousand families in L.A. County will lose aid to dependent children. Do you have any thoughts as to whether these individuals will be impacted adversely to the point where they would be considered to have fallen through the safety net or do you feel that is a legitimate, justified cut?

Mr. SCHABARUM. I also indicated, Congressman, that that group was essentially those that had other income.

What in turn is the final impact, you and I will both have to monitor very closely.

Chairman ROSTENKOWSKI. Mr. Anthony.

Mr. ANTHONY. On page 7, I must agree that you have mentioned very worthwhile statements here, but is there not a contradiction between what you say and what has actually happened in Washington?

You say there needs to be a fundamental welfare reform to assist those families to get off welfare rolls.

I agree. I think my constituents agree with all of this. We must place greater emphasis on giving employable people the tools and encouragement to avoid welfare dependency and to strive for self-sufficiency.

Do you see any contradiction in that statement and that goal and principle when we are making the unemployable with lower or no skills compete with those with higher skills, and the State of Arkansas has gone to 9.7 unemployment and in my district it is a little bit higher than that.

At the same time we have cut the WIN program, and eliminated the CETA program, so at the same time when we are running into a recession, we are doing away with our training program.

Isn't there some contradiction there?

Mr. GEPHARDT. Can I add to that, the other contradiction is that when you have people who are on welfare, the way the program worked for this last budget, we gave some amount of welfare to people who were also working. As I understand it now, because of the changes this committee has made in the reconciliation, we now make it harder for people to work and to get welfare so some people are opting to get out of work and go on welfare and I think we are giving people incentives to go on welfare.

Mr. SCHABARUM. I think, first of all, you got to ask a question as to whether or not the work ethic is still major to those of us in public life.

I believe it is from my point of view. The theory you just described may well turn out that way.

Chairman **Rostenkowski**. Excuse me, what we do know is, when you close daycare centers, some women may have to go on welfare because they can no longer put their children in a daycare center while they work.

Mr. **Schabarum**. You asked me for the record in Los Angeles County. Los Angeles County has been only able to implement most of its, some of its Federal programs as of January 1. Some of the State enabling legislation has yet to be enacted which I might suggest also includes a clarification of what counties can do in terms of providing a workfare program.

Chairman **Rostenkowski**. We have been throughout the country. This is the fifth city I have visited. A key question we have been asking is whether or not the private sector, as was predicted by this administration, is going to move in and take over some of the responsibility or make up for the reduction in Federal funds.

In all the question and answer period we have had with private sector organizations, such as the chamber of commerce, charity, and religious groups, none of them have said that they could in any way come up with the amount of funds the Government has been or should be providing the poor in areas under our jurisdiction.

That is why we are out here. We are trying to find out whether or not it was a mistake to cut Federal funds as the President proposed.

Los Angeles County, along with the States and other local governments—and I am not criticizing this at all—are very active in lobbying us in Washington for more programs and more dollars.

I don't think I have ever had a State tell me it did not want Federal dollars, or even that it didn't want a particular program.

If we are going to go along with the President, we need a change in attitude. States and counties need to urge the private sector to do everything that the administration expects it to do, because what the administration expects from the private sector just isn't happening. At least that is the message we are receiving in hearings like this.

In every instance, the testimony that we have received is that we have made substantial cuts; and that we can't cut any more. That is the message we are getting.

Mr. **Anthony**. I would like to reclaim my time.

It is always difficult for the junior Member on this Committee to reclaim it from the chairman.

I would like to finish up my train of thought. My original question was, Do you see a contradiction? I see a contradiction. When we are moving these people off of the rolls, we are putting them in competition with people that have greater skills, and yet we are taking away those programs that would give them the skills to make them employable.

In the State of Arkansas we have a strong work ethic. California is a much richer State than the State of Arkansas. If you say it costs $100 a week to live on, Arkansas can only provide 52 percent of that for its welfare recipients.

California has a much higher standard. On a fairness doctrine, I can tell my people to move to California, or raise their level. In order to save the Medicaid program in the State of Arkansas, the

Governor transferred $18 million out of the AFDC program. That is over and above the cuts from the Federal Government.

Now, what disturbs me is this, and this is a little-known fact, when you criticize the AFDC program, you are criticizing children and 73 percent of the recipients in the State of Arkansas are children. They have no choice. They were brought into this world either purposely or by accident. They have no choice.

We are basically turning our backs on some of these people. I have asked the question for them since they are not here to ask that question. What can they expect in 1982 and 1983, more or less?

Mr. SCHABARUM. Which part of your question should I answer?

Mr. ANTHONY. Take any part or none of it. I guess it was more of a political statement. Aren't there some contradictory movements in here?

Mr. SCHABARUM. I suspect perhaps there are, but again, I would have to ask the fundamental question, and that is, Do those that reach the point of being truly needy still prefer to have an opportunity for employment and to be able to make, to move from that truly needy state into a state where they are self-reliant?

Mr. ANTHONY. I bet you would get 100 percent to say they would rather be self-sufficient rather than be on welfare. I have talked to these people, and I promise you, they would rather be making a little bit less and not be on the welfare rolls. It hurts their pride.

As we move away from some of the programs that would assist them, well, I am bothered by this. I yield back my time.

Chairman ROSTENKOWSKI. The Chair would like to conclude this panel discussion. We have other people waiting to testify.

Thank you very much, gentlemen.

Mr. Hart, would you bring your panel to the table?

The Chair is going to have to insist on working within the time constraints allocated to it.

Mr. Hart, please introduce your panel and begin your testimony.

STATEMENT OF DENNIS B. HART, DIRECTOR, DEPARTMENT OF SOCIAL WELFARE, SACRAMENTO COUNTY

Mr. HART. Mr. Chairman, my name is Dennis Hart, director of the department of social welfare for Sacramento County.

We will be brief. I have asked everybody to shorten their statements. We want to give you a vivid picture of the impact on some of the providers and the services that you have been talking about this morning.

Chairman ROSTENKOWSKI. If you have a full statement, your entire statement will be included in the record.

Mr. HART. I have provided you with a similar statement, and I would like to extend a warm welcome on behalf of the county board of supervisors.

My only backdrop to this is simply to tell you that what we are going through this year is not simply belt tightening.

We are talking about what has happened since 1972 with the cap on social services funding. Through inflation, cost of living, the fact there have been no increases to that ceiling, our services ability has been eroded away, and we find ourselves in a situation where we have a local board who has been willing to match local funds, and that can no longer take place.

During this past year, as a result of the social services block grant, the State found itself $58 million short. I have one brief chart which is a graphic demonstration of this, and you will notice that the chart shows a rather moderate increase in population in Sacramento County at 15.5 percent which the welfare case load was increasing by 55 percent.

The bottom line shows you what has happened to the social services staffing which is a 38-percent decrease; 157 positions since 1975 have been eliminated.

What we are really saying in Sacramento County is we no longer provide community services. We are now into the heart of reducing our priority services. In the past we used to provide some important preventive services, and we looked at school absenteeism knowing that this would be a symptom.

We had family planning, health referral services. Social services that would help people with family functioning, better individual functioning.

We worked with individuals working to coordinate with the community. We monitored the effectiveness of these programs. All of those efforts are completely gone, eliminated in Sacramento County.

We no longer provide money management, alternative sources of help, alcoholism and drug abuse, et cetera, family planning, community liaison, and services evaluation have all been eliminated because of the funding impacts.

Through these layoff actions we have had to take, we have wiped out our past affirmative action efforts which had been quite successful during the last couple of years. Those people last hired have been eliminated, and this has had a particular impact on the black workers and the minority communities.

We have seen similar indications of this happening both to the Hispanic community, the Asian community and as well to the American Indian community, where we did have a few workers providing those services that have been eliminated.

[The statement of Dennis Hart follows:]

STATEMENT OF DENNIS B. HART, DIRECTOR, DEPARTMENT OF SOCIAL WELFARE, SACRAMENTO COUNTY

My name is Dennis Hart. I am the Director of the Department of Social Welfare for Sacramento County. The Board of Supervisors for Sacramento County asked me to express their welcome to you and to add their appreciation and encouragement for your efforts to determine the impact of the Administration's budget cuts.

I believe these impacts will be vividly illustrated by the members of this panel. Each member of this panel has been directly affected by the recent Federal legislation. As a backdrop to their testimony, however, I would like to give you a brief overview regarding the delivery of social services in Sacramento.

In 1972, Congress capped Federal spending for social services. That spending cap, followed by 9 years of inflation, meant slow death for national social services. Fortunately, the Sacramento County Board of Supervisors repeatedly acted to slow this erosion of financial support that otherwise would have deprived Sacramento citizens of the help they needed. Each year, the board contributed from local revenues more than the local funding share. The board's overmatch policy was renewed at each annual budget review, even as local resources became increasingly strained.

This year, the local financial picture became so dismal the board found it necessary to end its policy of extra support for social services. A few months later, the

Federal administration and the Congress combined forces in a way that had a unique impact on the gradual strangulation of social services. They decided to increase the rate of decline in the quantity and quality of social services by chopping Federal support for services a full 25 percent. The States were promised greater flexibility in administering the targeted programs, meaning that State and local policymakers could take over the responsibility for deciding who would no longer be helped.

The State of California was left with a fifty-eight million dollar shortfall for the support of its social services program. In Sacramento County alone, we found ourselves well over a million dollars under-funded. This year's federal budget-chopping proved to be the last straw for preventive services in Sacramento County.

The Department of Social Welfare for Sacramento County moved into the 1973 fiscal year with 456 members of its staff working in social services. At that time, the population of the county stood at 674,600. 27,213 persons were receiving AFDC, General Assistance, and Food Stamps. Actions by local leaders enabled the department to retain important services programs for a while, but as each year during the decade of the 70's went by without federal attention to our problems, those programs began to falter.

Today, Sacramento County's population stands at 797,700, and our AFDC, General Assistance, and Food Stamps caseloads stand at 40,975.

The staff we now have to deliver social services number 259, down 43%. Our prevention services have been demolished. This year, even our highest priority protective services have been hit. Child Protection, Adult Protection, Foster Home Placement for Children and In Home Support Services for adults have all been cut.

Child Day Care Licensing and Services eventually lost more than half their staff members. The same thing happened to foster home licensing. At this point, we are not sure we can be as confident as we were in earlier years in our child care resources. We can only hope that our reduced efforts combined with those of respected child care provider organizations, such as the Foster Parents Association, will be enough to keep child placement environments as safe as they have been.

During the 1970's, Sacramento County elected to provide a number of optional services. These included services to improve individual and family functioning, designed to help resolve the kinds of conflicts that can, if they continue, lead to family disruption and domestic violence. These services also helped young single parents deal with problems of providing adequate care for their children and to avoid becoming overwhelmed by new responsibilities foisted upon them by family break-up. Persons unable to adequately manage money found help through our optional programs. Persons who could not be helped by our department were helped by our optional programs staff to find alternate sources of assistance in the community and even, when necessary, transported to those alternate resources.

Also, during this period, during the 1970's, Sacramento County provided special services to families whose children were excessively absent from school. We recognized that high absenteeism is an early sign of problems which, if untreated, can have later serious consequences.

During the 1970's, we provided information, outreach and referral services to remove barriers that blocked people from obtaining adequate health care. We provided specialized social work services to persons who had problems of alcoholism or drug abuse. We provided counseling, information, education, and referrals in the area of family planning. We had staff members assigned to help initiate and coordinate community services. We had staff specifically assigned to monitor and evaluate the effectiveness of our programs.

All these service activities I have just mentioned—services dealing with individual and family functioning, money management, getting to alternate sources of help, school absenteeism, health care, alcoholism and drug abuse, family planning, community liaison, services evaluation—are gone. The latest statement of national priorities had the direct effects of eliminating forty social worker, supervisor, and staff training positions, and of eliminating virtually all our efforts to prevent problems.

Let me say, in closing, that we are aware of your difficult challenge to balance the budget and the multitude of hard decisions this requires. We stand ready to bear a fair share of these reductions. My concern to you today, is that your decisions should not be made on a fiscal basis alone without regard for programs, people or needs. We would like to work with you to assure that federal money is prioritized and is allocated according to actual and demonstrated need.

I think the health and well being of our people does remain a high national purpose, and we have with us here today several persons who can tell us why it is so critically important that social services programs must be restored and strengthened!

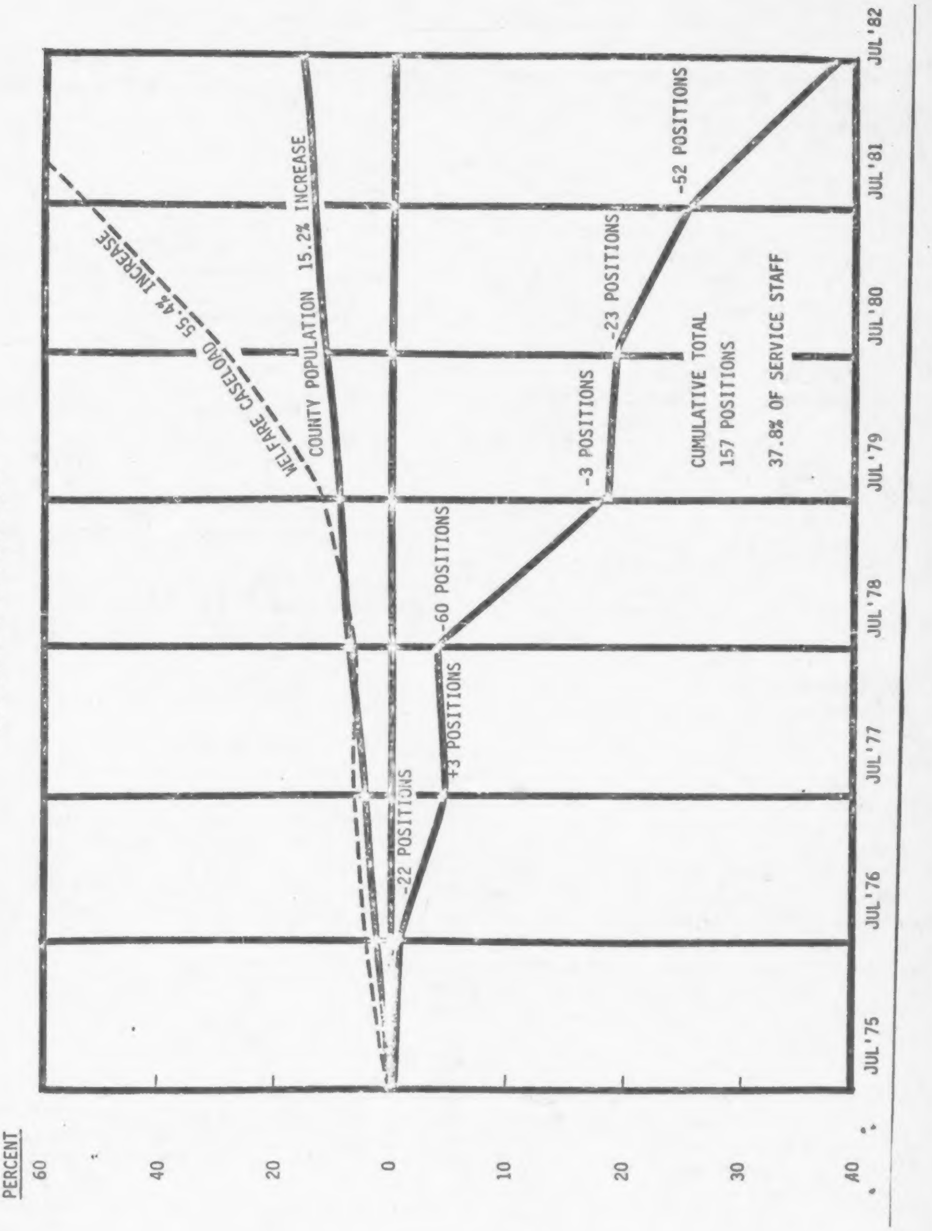
The impacts on the AFDC, clients, and on Welfare Department caseloads, and administration are substantial. Approximately 22.5% of the families receiving AFDC assistance (7,000) in Sacramento will be discontinued or will be receiving significantly reduced benefits as a result of the implementation of PL 97-35. Many of these will be low-income, employed single parent households. From their perspective, the reductions are viewed as unfair, demoralizing and a "disincentive" to employment, with their only alternative being total dependence on welfare.

California's attempts to implement Public Law 97-35 have resulted in an administrative nightmare at the local level. Despite the October 1, 1981 effective date of the federal changes, only a portion of the provisions have been acted on to date. Legislative delays and court actions have led to an atmosphere of total confusion and crisis management. Eligibility staff have been required to process thousands of grant changes within five or six days and subsequently have been required to abruptly reverse such actions a few days later. This cycle has already occured during November, December and January. Apart from its demoralizing aspects on both eligibility staff and recipients, the end result has been massive overtime costs and potentially disastrous increases in State and local assistance costs for non-federally eligible cases. Perhaps the most frustrating and alarming aspect of all, is that there is every reason to suspect that we will continue to be confronted with similar problems for months to come.

Our preliminary estimates indicate that the implementation of AFDC changes have resulted in increased administrative costs of $90,000 to $100,000 during November, December and January. This includes expenditures for staff overtime, postage for special mailings and added EDP costs. If our experience is typical of what happened in other counties, it is likely that California's added administrative costs on a statewide basis would be close to 2.5 million dollars over this three-month period.

At this point, I would like to return to the subject of the impacts of these changes on individual lives.

Unfortunately, our experience with the impact of the federal cuts has been extremely negative. We are seeing increased administrative costs, confused and demoralized clients and staff, disincentives to work, families losing their financial aid at a time when supportive social services and employment services are being drastically reduced. We realize that there will be future savings as the welfare roles are reduced. But one has to wonder why a less punitive approach to Welfare reform has never been taken. Although often mentioned, no real progress has been made toward regulatory simplification, cashing-out of food stamps, or the development of a common eligibility application form. These are examples of how administrative costs can be targeted for reduction rather than recipient benefits. I would strongly recommend that you agressively pursue these alternatives during future budget deliberations. Sacramento County is prepared to offer you an assistance you may need with these future endeavors.



SOCIAL SERVICE STAFFING VS NEEDS
CUMULATIVE CHANGE 1975-1982

BACKGROUND AND STATEMENTS

MADALYN CRAVIOTTO, ADULT PROTECTIVE SERVICES WORKER

Eligibility Worker for nine years, Social Worker for three years, currently working in the adult protective services division, also a representative of UPAW (Shop Steward).

WARENE M'GHEE, FOSTER PARENT

My name is Warene McGhee. I have been a foster parent for 29 years. In that time, I have cared for approximately 40 children, plus 10 for which I have provided permanent care. I am the natural parent of eight children; in addition, I have two adopted, and four for whom I am legal guardian. I am the President of the California State Foster Parent's Association.

Most of our children have been emotionally disturbed or mentally retarded; one of our children is a PKU child. The cuts will mean the loss of support from the workers. Personally, I've been a foster parent for so long that I know how and where to get the resources I need but I think we need to focus on the cuts in staff and what it means to other foster parents—present and future. Foster Parents will be left to their own devices; they will be isolated from those people who should be involved, expecially if we've trying to focus on permanency planning. How can we focus on permanency planning if there is no one there to follow the plan? My fear is that this will lead to "warehousing" of children. By "warehousing" I mean that I fear children will be put wherever there is a vacancy without regard to matching or suitability, or any previous planning.

If a foster parent has an emotionally or mentally retarded youngster and needs special help, where formerly we could look to the agency staff for guidance, there will be no one there for moral support, or direction, or guidance, to get the job done . . . there will be nobody there. Where will we go? Who's going to give us the help we need to continue? I have been a foster parent for all these years and have been a foster parent to all these children—I think you need me, but I'm not gong to take any more kids.

In addition, foster parents are now expected to pay a portion of Medi-Cal. Why should we? I feel we're already subsidizing this program. And sometimes I think foster parents are being manipulated, at least financially.

It is so discouraging, and frustrating that you don't want to continue. Why continue to hit your head against a brick wall when there is no hope on the horizon?

I don't think anyone has really looked at what these cuts are going to do. The kids we care for are the most disadvantaged segments of the human population; they have no families that can care for them—they have only strangers. If those "strangers" don't have the resources to take care of these children properly, we will see increased child abuse in foster homes.

In addition, there are drastic cut-backs in special education. Most of these children need special ed. What is going to happen to them without it?

JANE M'CLUSKEY

Jane came to the Sacramento County Welfare Department in 1968. She worked with a specialized caseload—mentally ill, retarded and drug addicts in the Disabled Program. Jane has been a Social Worker in Foster Care Placement for 10 years. She became part of the Permanency Planning demonstration project (the Oregon Project) in July of 1980. She has worked as a volunteer in the Parent Support Program and helped start parenting classes for clients with the Red Cross and Child Action. Jane has participated in various courses and workshops to help improve her skills as a Social Worker.

TOWNE DOMINO

Towne Domino is a 32 year old legally blind IHSS Recipient who has a history of Asthma and a heart murmur. She has been a recipient of IHSS since 5/1/76.

When Mrs. Domino originally applied for Attendant Care services she was living in unsuitable housing with two small children. She met Mr. Domino who first became her chore worker, then common-law spouse, and finally her legal husband on 3/27/80. They have three children in common. The family has since upgraded their housing and assessments indicate housekeeping standards are high.

Mr. Domino, in addition to performing chore services for his wife, also provides chore services to a mentally retarded brother and a disabled mother. All indications are that Mr. Domino is providing excellent care to his mother and brother.

Due to budgetary cuts Mrs. Domino's IHSS grant was reduced from 59.6 hours to 12.2 hours per month, a reduction of $158.79.

Mrs. Domino's AFDC grant for the Peppars children will be reduced $20.00.

Mr. Domino's mother's and brother's IHSS grant were reduced a total of $21.78 a month.

This constitute a total reduction in income of $200.57. The family may not be able to continue to pay rent of $400 and don't know what they are going to do.

CLARIZA CHAVESTE

Clariza Chaveste began as a Medical Transcriber, Community Health Worker with migrant laborers, and a Typist-Clerk. Became an Eligibility Worker and a Special Skills Social Service Worker. Demoted to the class of Eligibility Worker II December 4, 1981. Returned to a service program under County Charter 21–J.

JANELLE DOOLITTLE

My name is Janelle Doolittle and I am a single working parent. I am going to tell you how the welfare cutbacks will personally affect me and my family.

Being a single parent I have chosen to work part-time to try and better my self and also to be able to give more time to my children, rather than sit home and collect welfare and go nowhere at all. My children are ages 1 and 2. These are very formative years in a child's life and it is important for children to have at least one parent home with them, particularly in the community in which I live. I have just been able to make ends meet working like this. Now, with all of the cutbacks which will happen, I will be forced to try and find full-time work, (Where are the jobs?) which will have a negative affect on my children. I have discovered after I pay child care expenses which would be approximately $200.00/mo. for two children that I will be making less money than if I stayed home and didn't work at all. Where is the incentive to try and better oneself? How will I pay rent, buy food, clothing and pay bills on $471.00 per month. That is what I will be making after child-care, which as you can see is about thirty dollars less than a total welfare recipient. It is also a full-time job just trying to raise two babies by myself. Where am I supposed to get all of the energy? I feel it is very wrong for the working single parents to be the ones who should suffer. I am struggling to raise a family, work part-time so that I will not be fully dependent upon the government, and I am being penalized because I have not chosen to be home full-time and be totally dependent upon government support.

Where is the justice?

Household Comp—Janette Doolittle and two children.

Income—$370 month gross wages—$322.68 net. Child are is $88.00/month.

Prior to welfare reform of 1981; her AFDC grant was $419.00/month. After welfare reform, she is eligible to $341.00 AFDC per month. After the 4-month limitation of the 30⅓ income, disregard. Her AFDC will be $237.00 per month. Her net income will be $34.00 less than MAP per a family of 3 ($506).

	Prior to welfare reform	After	Without 30⅓
Gross wages	$370.00	$370.00	$370.00
Less deductions	47.32	47.32	47.32
Subtotal	322.68	322.68	322.68
Plus AFDC	419.00	341.00	237.00
Subtotal	741.68	663.68	559.68
Less child care	88.88	88.00	88.00
Net available income for living expenses	653.68	575.68	471.68

Penelope Lerma—30–853122, 8851 Swallow Way, Fair Oaks, CA 95628; 967–2570—Home Phone; 643–4733—Work Phone.

Family Composition: Mother and 2 children—Income: $770 per month (works at McClellan A.F. Base).

Expenses: Withholding: $123; Transportation, $66; Child Care, $240.

Grant before change, $478; Grant after change, none.

Regulation causing change: Income exceeds 150% of MBSAC ($759). Eligible for grant of $506 if she is not working.

Mr. HART. I think at this point, we will turn to a couple of people. The first person is Madalyn Craviotto, who is a social worker.

STATEMENT OF MADALYN CRAVIOTTO, SOCIAL WORKER, SACRAMENTO COUNTY

Ms. CRAVIOTTO. My name is Madalyn Craviotto, and I work in adult protective services.

Our program is a program that works with exploited people in the community, people who are elderly, handicapped, retarded mentally ill, drug and alcohol abusers and the retarded.

When the 18 to 21 year olds were discontinued from AFDC, many of these people were referred to our county welfare program. They were also subsequently referred to our adult protective services programs. I will give you two short examples of the type of young people discontinued from AID.

Richard is a 19 year old. The only kind of work history he has is odd jobs, sweeping up stores, mowing lawns, and his only transportation is by bicycle because he is easily confused by the buses, and his parents described him as retarded. He can neither read nor write nor make change.

The first agency was Alta Regional. This is our State agency. They tested his IQ at 72. Their maximum for aid is 70. The counselor told me a few months ago they would have made an exception for a person like Richard, but because of the cutbacks they refused to do this. This means to Richard that he is not entitled to their special training provisions, or to their classes paid for him to improve his skills, and he has lost access to the sheltered workshops in Sacramento County.

The next service I attempted to get was SSI. He was denied for those programs, disability not severe enough. We are currently trying to appeal this denial. He is on general assistance.

Steven is 20 years old and is a high school graduate, but he graduated before the State competency test, and he functions at a very low level and all of his classes were in the educationally handicapped program.

He got a job, and he got fired because he is too slow and has problems following directions. He was asked to leave one job because he got in the way. He attempted to enlist in the Navy and was only in for 3 years and was discharged for the good of the service.

I took him for an evaluation and he was diagnosed as schizophrenic with severe learning disabilities. His disability was not severe enough to qualify for funds.

Both of these clients seem to me to be dead-ended on our general assistance program.

Their AFDC was taken away when there were no CETA jobs, and our family and general services is gone, and the State employment office has been cut. In our current economy, people like Steven and Richard cannot find jobs and cannot be independent without some help.

Right now, the only help seems to be our general assistance program funded entirely by county dollars. I feel that this resource too may be gone soon, and I do not know what people like Steven and Richard will do.

Mr. HART. Next, Warene McGhee.

STATEMENT OF WARENE McGHEE, FOSTER PARENT, SACRAMENTO COUNTY

Ms. McGHEE. I have been a foster parent for 29 years, and 19 of those years in Sacramento County. I have been a foster parent for some 40 children and have been a permanent family for 10 of those foster children, 2 adopted and 4 long-term foster care, including my own family.

Foster children are our most disadvantaged needy population in society. They are not only traumatized by the separation from their natural family, but are victims of severe physical and emotional child abuse.

The children that come into placement today are far more damaged than those that were there 5 years ago. We are only seeing those children where all efforts have failed to keep them in their own families. Children need ongoing services from social services, and so do foster parents who care for them.

Because of the title XX cuts, training for foster parents has been eliminated completely. The staff in Sacramento County, there is a complete turnover in placement services, and new workers coming in that have no experience at all in the child placement field.

The licensing bureau has lost one complete unit in licensing which means that the monitoring of foster homes will not go on. Only crisis situations will be attended to, and that is because the Department, the loss of licensing workers, there is less attempt to match the children, to go into family care, because there is no time, because of the caseloads.

Therefore, there has been a dramatic increase in the turnover, and they are moving from home to home because they are placed inappropriately, and not because the attempt is not there, but there is just not the time to do it.

Public Law 96-272 that calls for permanent planning for children, I see this as not being possible at this time, because this program is not being fully funded, and we feel that foster homes are a critical state right now and we need more. Families cannot continue with the pressure that, and the expectation to try to work with these children with no support services available to them.

For instance, we have a daughter Laurie who is 14 years old now who has been with us for 10 years. She is a social security recipient. She is retarded. She functions about 5 or 6 years old. She has chronically severe asthma and she has an enlarged heart.

Every time Laurie, since the cuts, she gets an increase in her social security benefit, her eligibility for medicaid goes up. Her medical benefits eligibility increased by $11.

I do not think it is the intent of the Government to, especially with handicapped children or even handicapped adults, to penalize them through their medical services that really, you know, that they should be fully funded.

If Laurie was not in our home and had a social security payment from the Government, if she had to be institutionalized, it would be $2,500 a month for that child plus full coverage for medical.

The institutions are not being charged for contributing to the medical program. Foster parents are also being asked to contribute to the medical program for children over the age of 12, that so much money will be paid for each visit.

The voluntary placement program has been curtailed, and handicapped children, borderline handicapped children are not being allowed to go into placement unless their parents make the claim that they are unfit to care for the children. I think this is cruel and unusual punishment.

There is some question now as to the funding available from the Government for our delinquent children. The Federal level will not fund their portion for delinquent children.

I urge this committee, and I hope that this committee will impact on the decisions for children at the Federal level in this next coming year, and that 96-272 be fully funded, and that the priority in this country should be our precious resources, our children, and not bombs and nuclear weapons.

Mr. HART. Thank you, Warene.

Mrs. McCluskey is a social worker. She has a brief statement.

STATEMENT OF JANE McCLUSKEY, SOCIAL WORKER, SACRAMENTO COUNTY

Mrs. McCLUSKEY. My director has just told me that it should be very brief indeed.

I would like to say that my job is to work with those children who have been taken from their parents because of abuse and neglect and I work with them in the foster care system.

I work with the foster parents and try to get those children, if possible, back with their parents if there is a way to make those parents change and provide the kind of care the children need.

One of our jobs is to try to find a permanent situation for children so they can know who is going to raise them. Any child certainly has the right to know by whom they are going to be raised.

In our present foster care system that is not possible. We don't have the resources.

In our department we had a project called permanent planning and foster care and this project was very successful. We doubled the rate of returning children home through their parents over what the rest of the agency was doing and the rest of the agencies in California.

This is certainly an enormous savings.

Three or four times as many children went through adoptions, through this program as had gone heretofore.

Although this program has only been going about 6 weeks, their referrals have been cut in half, which means that these children are staying in the foster care system at great expense.

Warene spoke of the fact that the children are moving from home to home. This hurts the children very much and usually means, along the way, these children will be in institutional care, which is probably about five times the cost of foster care and then, of course, as you know, they graduate to the prison system.

We really need the Congress to take a look at these children. They are a most valuable resource of this country, but the least valued, and those who work with them as foster parents or as social workers are also undervalued.

We do not have any cures for child abuse like a Salk vaccine, but we do know that effective social services can help the problem.

We do know that we can get children out of our foster care system into a situation that offers them security and is certainly far less costly in every way to our Government and we would really like the opportunity to do that.

We will appreciate the congressional locating the funds to staff the programs that are mandated to be staffed and staff them with people who have the experience and dedication to do it.

We have lost 14 people in our Family Unification Bureau.

We are getting some other people to take the place of some of those people, but they are not trained, not capable of doing the same quality of job that those of us who have been there a while can do.

Mr. HART. Thank you, Jane.

I am pleased to present Towne Domino and you will find from her testimony that she is receiving a double cut under the new regulations.

STATEMENT OF TOWNE DOMINO, IN-HOME SUPPORTIVE SERVICES RECIPIENT

Mrs. DOMINO. I am Towne Beverly Domino. I am a welfare recipient and my husband works for his brother, who is mentally retarded by birth and his mother who had a nervous breakdown.

We recently got him out of the institution and my husband has been forced to put him back because I have two other children from my former marriage who is on AFDC, and they have been cut because of my husband working, and also I have three other children who are not on AFDC and my husband, he wanted to take my other two off because he don't like being on the welfare roll, but this is forcing him by getting a cut, it is forcing him to put my other three children that he don't want on the welfare roll on there.

He has to ask for aid for them. He wants to go out to find a job. We have to eat, you know.

It is forcing him to put his mother and brother back in institutions and it has really hurt us real bad.

I have a child that is crippled and he won't be home if he go to work to help take care of the children like I am not able to do, feed them, cooking, stuff like that, and this is what is happening in our home.

Mr. HART. We have a brief statement from Clariza Chaveste.

STATEMENT OF CLARIZA CHAVESTE, SOCIAL WORKER

Ms. CHAVESTE. I am one of the social workers. I would like to say that the problems of Mrs. Domino are not unique to this agency.

A lot of clients are facing similar problems. The in-home supportive services program is helping the clients to remain in the home. Our clients age is from 60 to 100 years old. Some have lost domestic help and assistance and essential health care needs.

Our minority clients once more have lost more than services.

They struggle to be helped and understood by social workers who do not understand their language or culture. There are no social workers left in the agency with special skills. We have been demoted and this demotion means for me less money to support my four children.

The few social workers left in the program are overworked with increased caseloads. They have to shuffle more paper to run the program effectively and less time is left to help our clients by trying to do too much for themselves.

They are being hospitalized more often and putting the burden for care on neighbors and friends, and how long can they help, continue living this way?

How long can they help without their own well-being?

Our clients are suffering.

Thank you.

Mr. HART. Our last two people to testify, are two AFDC recipients who are among the 7,000 families who will have their benefits reduced. I won't talk about the $100,000 we have spent in overtime trying to restore and rechange these regulations.

You will see here an example of the disincentive to work that you have been talking about this morning.

I would like to introduce Janelle Doolittle.

STATEMENT OF JANELLE DOOLITTLE, AFDC RECIPIENT

Ms. DOOLITTLE. I am a single working parent and I would like to tell you how the welfare cutbacks will personally affect me and my family.

Being a single parent, I have chosen to work parttime to try and better myself and also to be able to give more time to my children.

My children are ages 1 and 2. These are very formative years in a child's life and it is important for children to have at least one parent home with them, particularly in the community in which I live.

I have just been able to make ends meet working like this.

Now, with all of the cutbacks which will happen, I will be forced to try and find full-time work which will have a negative effect on my children, plus where are the jobs?

I have discovered after I paid child care expenses which will be $200 a month for two children, that I will be making less money than if I stay home and didn't work at all.

Where is the incentive to try and better oneself? How will I pay rent, buy food, clothing and pay bills on $471 per month?

That is $30 less than the total welfare recipient.

Where am I supposed to get all of the energy if I did work full time?

I feel it is very wrong for the working single parents to be the ones who should suffer.

I am struggling to raise a family, work parttime so I will not be fully dependent upon the Government and I am being penalized because I have not chosen to be home full time and be totally dependent upon Government support.

Where is the justice?

Mr. HART. Our last speaker is Penelope Lerma, and she is a recipient who has been reduced on the rolls.

STATEMENT OF PENELOPE LERMA, AFDC RECIPIENT

Ms. LERMA. I am the mother of two children. I was married 14 years when all of a sudden I found myself in divorce.

I was lost and afraid. I went to welfare for help. I was on welfare for about a year when I obtained a job at McClellan Air Force Base, and I make $630 a month, and my expenses are $585. This leaves me with $45 to feed my children.

I don't know how I am going to do it. It is like they are crippling the mother that is trying to help ourselves, forcing her back onto the welfare rolls.

She cannot afford to pay for a babysitter, or buy the gas to go to work.

Mr. HART. Thank you.

In summary, our mission today is to try and tell you the various impacts that some individuals are feeling, both in terms of losing AFDC, no support services on the social service side and the CETA positions have been eliminated. We are urging you to, as you look at your budget, please remember some of the testimony you heard today and go back and look at some of the administrative savings, such as the cashing out of food stamps, instead of the savings at benefit levels.

Thank you very much for your time.

Chairman ROSTENKOWSKI. Thank all of you for joining us.

I have been informed that we have to surrender this room in less than an hour because there is going to be another hearing here. As a result, I am going to request that any of my colleagues who have questions for this panel submit them in writing for inclusion in the hearing record.

I want to thank you all for joining us.

Mr. ROUSSELOT. On the family and adoption assistance, we rewrote the law, and all of this committee supported that very fully. We have improved that, and, as you see that implemented, it will help some of the problems you mentioned.

Ms. McGHEE. The funding?

Mr. ROUSSELOT. We prevented it from going into a block grant.

Chairman ROSTENKOWSKI. Mr. Kennedy, Mr. Laffer, Mr. Wright, Mr. Gevirtz, and Mr. Garcia.

Mr. Kennedy, if you would like to begin.

STATEMENT OF DONALD KENNEDY, PRESIDENT, STANFORD UNIVERSITY

Mr. KENNEDY. I will set an example for brevity.

Thank you for giving me the opportunity to appear here. I am representing Stanford University, but by indirection a number of other institutions of higher education in this State and elsewhere.

I am going to talk to you just briefly to summarize some impacts of the current budget cuts on higher education, cuts which by themselves might be tolerable with some anguish, but combined with some negative effects of the tax law provisions, and the small business set-aside bill, they may add up to a devastating bottom line for us.

As you and your colleagues know, cuts already made in student aid programs involve about 12 percent of current Federal student aid going to students at places like Stanford.

OMB proposals would take the total loss to 50 to 60 percent and would include loss of half the on-campus programs currently in effect, after school interest subsidy on the guaranteed student loans programs, and the loss of about half of the current Pell grant support.

The death of a student aid policy that has been so carefully structured by the Congress to insure access to higher education by the Nation's very ablest young people is a cause for real concern, and it is a matter of particular concern that these carefully built provisions were set aside not on the basis of careful scrutiny by oversight and authorizing committees and by appropriations committees, but in a reconciliation process that you might agree could be appropriately described as frenzied.

If current predictions for this year's cuts hold, there will have been a total of about a 16-percent reduction in nondefense federally supported research since 1980. That is well known to you.

I want to point out by the use of one example that these reductions are often highly leveraged. At the Stanford Linear Accelerator Center, one of three national centers engaged in the study of high energy physics, the cuts that have so far been sustained have reduced the operating time—the beam "on time"—of that facility to about a third of its maximum capacity.

In short, fixed costs for an enterprise of that sort are sufficiently high that losses in the various cost component are highly amplified in terms of the functional efficacy of that research operation.

I think that these kinds of research programs of which two-thirds or so take place in the nation's research universities represent the beginnings of a melt-down in the major capital that we have in this country that guarantees future productivity and guarantees a stream of future innovations.

Turning to the tax side for a minute, it is pretty hard to find a segment of society that was not given relief by ERTA, but things aren't terribly bright for us.

Charitable giving, a lifeline to which we are repeatedly asked to turn, has been sharply reduced in terms of incentives for it. Most estimates hover around a projected $3 billion loss in charitable giving for this year. That is part two of the double whammy we are concerned about.

I am able to praise something this afternoon, Mr. Chairman. We like a couple of features of the tax legislation, incentives for gifts of equipment, research equipment to universities. We like the deduction for non-itemizers but we would like to feel a little more secure about that in the future.

On the other hand, we failed in efforts to get some strong incentives built in for corporate support of university research and development.

I would therefore have to describe our position after the act as having gotten relatively very little relief, and indeed some further difficulties.

Mr. Chairman, that could be made considerably worse if some tentatively announced administration intentions are carried through to eliminate the tax exemption for various kinds of revenue bonds, including educational facilities and hospital revenue bonds. That would add a third whammy which would be difficult for institutions like ours to tolerate. Finally, the impact on university medical centers, with changes in medicare and medicaid reimbursement rules, will cost us about $3 million this year.

Thank you. I hope I have been able to sketch a sufficiently vivid picture to invite questions from you.

[The prepared statement and additional material follow:]

STATEMENT OF DONALD KENNEDY, PRESIDENT OF STANFORD UNIVERSITY

My name is Donald Kennedy, and I am testifying today on behalf of Stanford University. Let me begin by saying that we in the higher education community view the current cuts in the federal research and student aid budgets as nothing less than a major withdrawal of government from three decades of commitment to the enterprise of fundamental research and higher learning. The unintended consequences of that withdrawal may prove seriously damaging to the long term growth and economic productivity of our nation.

In isolation, these cuts would represent serious financial setbacks for colleges and universities nationally. But they are not isolated; in combination with projected decreases in charitable giving resulting from the Economic Recovery Tax Act of 1981, additional reductions in basic research threatened by passage of the small business research set-aside bills, S. 881 and H.R. 4326, and the possible elimination of educational and hospital tax exempt bonds, they will be devastating.

My testimony this morning will briefly detail the nature and anticipated impact of the major federal cutbacks facing Stanford University.

STUDENT AID

The federal government's abandonment of it commitment to higher education is perhaps nowhere more evident than in the area of student aid. Within the past year alone, the government has: (1) through Omnibus Budget Reconciliation Act provisions, imposed a needs analysis test to Guaranteed Student Loan (GSL) applications of students from families earning more than $30,000 (middle and upper income students), established a 5 percent loan origination fee on all GSL loans, placed a cap on the Pell Grant Program, and raised the National Direct Student Loan (NDSL) interest rate; and (2) under the current Continuing Resolution for fiscal year 1982, reduced funding levels for student aid programs between 9 percent and 30 percent (in real dollars). In addition, the President is expected to request approval of rescissions totalling $950 million from the Continuing Resolution funding levels.

Even more damaging to higher education are the student aid cuts proposed by the Department of Education and the Office of Management and Budget (OMB) for fiscal year 1983. These cuts include: (1) Either the consolidation of the three campus based programs at a funding level of $500 million, more than 54 percent less than the current level appropriated for these programs, or the elimination of two of these programs; (2) severe cutbacks in the GSL Program (including disqualifying graduate students from GSL participation, their eligibility to be limited to the 14 percent interest Auxiliary Loan Program, raising the loan origination fee from 5 percent to 10 percent, and forcing students to repay loans at market interest rates two years after leaving school); and (3) funding reductions in the Pell Grant Program totalling 20 percent to 30 percent below the currently inadequate fiscal year 1982 continuing level.

Although the higher education community as a whole will suffer serious setbacks as a result of these cuts, the private institution sector, because of its greater dependence on student-generated revenues, will bear the brunt of these reductions. (Independent colleges on the average receive about 50 percent of their current fund revenues directly from students, who in turn rely heavily on student aid funding to finance college costs.) In fact, although most of the student aid cuts passed so far will not take effect until the 1982-83 academic year, the independent sector is already beginning to feel the impact of proposed and actual reductions in federal student aid. College administrators, for example, attribute the 2 percent national decline in freshman enrollment at private colleges this fall to student aid reductions. Additionally, preliminary data collected from private California institutions by the Association of Independent California Colleges and Universities (AICCU) indicates that as a result of decreases in federal and state grant aid (12 percent and 2 percent decreases, respectively) at a time when tuition and fees increased an average of 11 percent (between the 1980 and 1981 academic years), institutional contributions for student aid increased 16 percent.

To use Stanford University as an example, approximately 8,790 students or 65 percent of Stanford's total student population currently receive some form of financial assistance directly or indirectly from federal student aid programs. The neediest of these students, 385 in number, receive Supplemental Educational Opportunity Grant (SEOG) funds. These students will be hardest hit by the cuts approved in the fiscal year 1982 Continuing Resolution. The Resolution level of $278 million could cut 116 students or 30 percent of the number of current Stanford recipients from the program during the 1982-83 academic year. Other fiscal year 1982 program cuts (in real dollars) of 13 percent in both the College Work Study (CWS) and NDSL Programs, 11 percent in the State Student Incentive Grant (SSIG) Program and 9 percent in the Pell Grant Program could reduce federal funds to as many as 371 Stanford students, or approximately 11 percent of those Stanford students participating in these programs this academic year.

The fiscal year 1983 funding levels currently under consideration by the Administration would deny program eligibility to an even greater number of Stanford students. For example, in California, SSIG funds, together with state funds, finance awards known as Cal Grants for approximately 61,900 needy students throughout the state. 809 of these students attend Stanford University. Federal funds close to $12 million comprise 13.5 percent of the total Cal Grant budget for the 1981-82 academic year. The loss of all federal SSIG funds would treaten Cal Grant funding for 16,987 students statewide (including 218 Stanford students) or 27 percent of current Cal Grant recipients. Contrary to the Administration's assertion that federal SSIG funds are no longer needed for the adequate support of state funded need-based student aid programs, California officials neither support nor anticipate state replacement of federal funds. In fact, Governor Brown has mandated a 2 percent cut this year and a 5 percent cut next year in state program funding.

With respect to other proposed fiscal year 1983 program cuts: (1) the consolidation of the three campus based programs or the elimination of the NDSL and SEOG Programs in academic year 1983-84 could disqualify approximately 1,000 Stanford students from program participation; (2) a Pell Grant funding level of $1.6 billion (down from $2.34 billion in fiscal year 1981 and $2.28 billion in fiscal year 1982) could result in the denial of program funds to 36 percent of those now receiving Pell Grants at Stanford, or 350 students; and (3) the transfer of graduate students from GSL to Auxiliary Loans to Assist Students (ALAS) Program eligibility would affect 1,568 Stanford graduate students, including one-quarter of the medical school population. The federal student aid cuts scheduled for the next two academic years represent an estimated $550,370 loss next academic year and a $2,240,448 loss in the 1983-84 academic year to Stanford University. The University could, if necessary, offset these losses by increasing institutional student aid contributions approximately 35 percent next year and 37 percent the year after over previous year levels. However, in absorbing these enormous cuts, the University would be forced not only to expend general funds allotted for University growth, but to increase tuition costs as well.

In conclusion, for the few colleges and universities (such as Stanford) able, in light of other governmental reductions, to substitute institutional for federal funds, these cutbacks will at the very least result in opportunities foregone and higher tuition rates. For those institutions unable to replace lost federal funds, the cutbacks will unjustly discriminate against lower to middle income students academically but not financially able to attend the school of their choice. In either case, the reductions threaten valuable resources needed to meet objectives set by the Reagan administration for increased industrial productivity.

RESEARCH AND TRAINING

Colleges and universities are currently suffering the intended and unintended consequences of the uncertainties stemming from the President's proposed 12 percent reduction in federal research funding. The result could prove devasting for our nation's long term growth and economic productivity. At Stanford University, for example, the uncertainties raised by proposed reductions in federal research budgets have resulted in serious research and training cutbacks.

A vivid case in point involves the Stanford Linear Accelerator Center (SLAC), one of three national laboratories engaged in the study of high energy physics. As is true of most university research, the research conducted at SLAC is basic research, devoted to the creation of new knowledge upon which all further practical application is dependent. More specifically, high energy physics examines the most elementary components of all matter. SLAC depends entirely on federal support for its survival. At present, approximately 70 percent of SLAC's funding is used to meet payroll-associated costs.

The 12 percent cut proposed in DOE funding back in September of last year would have represented a loss much greater than 12 percent in SLAC productivity. This prompted SLAC officials immediately to reduce its contract labor force by about 100 persons. The actual 7 percent cut in fiscal year 1982 federal funding for SLAC recently approved by Congress in its regular Energy and Water Development Appropriations bill is expected to result eventually in a total staff reduction at SLAC of about 150 full-time employees, or 10 percent of its pre-cut personnel level. Other projected reductions at SLAC resulting directly from 1982 DOE budget cuts include programmatic changes reducing SLAC operations in 1982 to about one-third of its potential utilization, and smaller changes including the elimination of two training programs and the reduction of an apprenticeship program.

An historical overview of federal funding for SLAC, illustrated in a chart attached to the end of this testimony (Attachment No. 1), highlights a very important point. Although there has been a consistent increase in actual federal dollars accruing to SLAC since 1970, real dollars (reflecting inflationary increases) have decreased 13 percent.[1] On the other hand, during this same 12 year period, SLAC facilities have doubled. Thus, despite the fact that its facilities have doubled since 1970, SLAC will now be required to operate at a budget level 13 percent below the 1970 level.

The trend away from federal support of high energy physcis in this country becomes even more significant when viewed in an international context. Statistics compiled by the European Center for Nuclear Research (CERN) show that despite declining Western European economies in recent years, expenditures by CERN member states in Western Europe have far exceeded U.S. expenditures in this area. In fact, these same statistics indicate that in 1980 not only were Western European expenditures about double U.S. expenditures, but support of high energy physics as a percentage of GNP was twice as great among 12 CERN member states as it was in the U.S.

The Administration's proposal last year to slash federal research funds has damaged other University research and training programs, as well. At Stanford, we have felt the effects of the following federal agency responses to threatened funding cuts:

1. The National Institutes of Health (NIH) reduced 30 Stanford continuing research grants 12 percent. It has since announced a partial restoration of the cut, lowering the final grant reduction figure to 4 percent. The agency has also apparently decreased the number of new grant awards.

2. The National Aeronautics and Space Administration (NASA), the Department of Agriculture and the Environmental Protection Agency have only partially funded continuing research awards (conditioning full funding on the adequacy of final agency budgets). In addition, NASA has tended to postpone the making of new awards this year, and, responding to the Administration's emphasis on military research, has apparently reduced some of its basic research awards to accommodate the diversion of agency funds from basic to military research.

3. The National Science Foundation (NSF) has forced researchers working on continuing grnts to reduce previously agreed upon budgets and has delayed the funding of its new grant awards.

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[1] Note that a recent analysis by the American Association for the Advancement of Science estimates a real (constant dollar) decline in federal non-defense research funding and federal basic research funding between fiscal year 1980 and fiscal year 1982 of 16.1 percent and 5 percent, respectively. See Attachments No. 2 and 3 for detailed breakdowns of this decline.

4. The National Institute of Education, anticipating future difficulty in meeting current project commitments, decided not to make any new program grants during 1982.

5. The National Endowment for the Humanities has reduced certain programs oriented to university research and instruction by as much as one-half and has stepped up requirements for outside matching gifts and university cost sharing.

These agency decisions have handicapped the Stanford community in various ways. First and foremost, by limiting the number and value of research awards, they have reduced the quantity and, potentially, the quality of basic research performed. As is the case with high energy physics research, basic research in other areas is almost exclusively federally funded. Because basic research is not conducted with a commercial application in mind, the private industrial sector has little incentive to fund it, and in fact, generally does not. Less than 3 percent of Stanford's total research budget comes from private industry. Moreover, universities, as nonprofit institutions, are without the funding reserves maintained by the private sector to protect against sudden funding losses. As a result, a reduction in federal basic research funding means a reduction in basic research. And as it is widely acknowledged that basic research is utterly essential to our nation's long range objectives for economic progress and national security, any loss of basic research undermines national efforts undertaken to achieve these goals.

A secondary consequence at Stanford of shrinking research awards is the corresponding reduction of graduate student funding. Stanford currently trains approximately 240 new graduate students each year in science and engineering. These students are supported in large part by federal research grants and contracts. The continued ability of Stanford University to attract and train the best scientific minds necessary for the attainment of national economic and security goals is inexorably linked to the adequacy of federal research funds. Thus, a 10 percent reduction in federal research funding at Stanford would not only reduce research volume, but would reduce graduate student enrollment by 10 percent, as well.

Other problems have also arisen as a result of agency decisions to reduce or fund in installments projects awards. Perhaps the most significant has been the impairment of the planning process. The long term nature of many research projects requires the stability and continuity of funding sources. Officials from SLAC cite the following statistics in this regard:

1. It takes about three and one-half years average between acceptance of a proposal by a research group involving many graduate students and completing data for publications;
2. It takes about three years to construct a large piece of research equipment before its use can be started in experimentation;
3. It takes at least 10 years between completion of conceptual design of a major new facility and its impact on physics research.

The absence of secure research funding in the case of an ongoing project inhibits effective future planning; it can delay or even cancel plans for future projects.

At Stanford, proposed and actual budget reductions have, depending on the perceived stability of the funding agency, either discouraged researchers from seeking new awards or stimulated new award competition for even more limited funds. While competition for awards funded by agencies targeted for elimination or extensive reorganization by the Administration, e.g., the Department of Education and the National Endowments for the Arts and Humanities, has generally decreased since September, competition for awards administered by more stable agencies has generally increased under the theory that funding chances are improved by "putting one's eggs in more than one basket."

Another major problem stemming from agency uncertainty of fiscal year 1982 funding levels has been funding delay. Stanford award officers report a general lag since September in the receipt of research funds, citing in particular, one to two month delays in the availability of NSF, NASA and NIH funds. Aside from causing short term financial and administrative headaches, these delays have disrupted the lives of graduate students dependent on research money for their survival.

But direct constriction of federal research funding is not the only federal funding of basic research may be reduced. HR 4326, the Small Business Innovation Development Act, which has passed the Small Business committee and is moving rapidly through the House, requires that 3 percent of each federal R&D budget over $100 million be set aside to fund a Small Business Innovation Research program (SBIR) in each such agency. The SBIR's will use the funds so set aside to fund small business research proposals. HR 4326 permits agencies to skim whatever R&D budgets they wish in order to meet the SBIR set-aside. In DOD, for example, $600 million (or 3 percent of the total DOD R&D budget) would be required to be set aside for the

SBIR. That compares with a total basic research budget in DOD of only slightly over $700 million. DOD could elect to set aside up to $600 million of the basic research budget in order to fund the SBIR. If HR 4326 is enacted, therefore, not only will agencies be required to reallocate 3 percent of their total R&D budgets to a special program, they will be free to take those funds from whatever R&D budgets they choose—all without the approval of an authorizing or appropriations committee. Consequently, the small business set-aside will result in effective additional cuts on top of those forced by the authorization, appropriations, or budget processes. (For more on HR 4326, see Attachment No. 4.)

In conclusion, the university community has not yet felt the full impact of the Administration's proposed cutbacks in federal research funding. That impact may not be felt for several years to come. The health of the university research enterprise may also depend on such matters as the proposed Small Business set-aside. Nevertheless the adverse effects of the cuts so far on higher educational institutions have been numerous and far-reaching. These effects alone demonstrate that in the absence of swift governmental action reversing the decline in federal research support, university research and in turn national economic growth and security will suffer permanent and irreversible damage.

ECONOMIC RECOVERY TAX ACT OF 1981

These new retreats from federal support of higher education may be worsened by the Economic Recovery Tax Act of 1981. Although economists cannot yet predict with certainty the effects of the new tax law on institutions of higher learning, many foresee a significant reduction in charitable giving as a result of the Act's: (1) Lowering of the maximum tax rate on unearned income from 70 percent to 50 percent; (2) lowering of the capital gains tax for individuals; and (3) general across-the-board rate cuts. They maintain that by reducing taxes, these provisions make charitable giving more expensive, and therefore less likely.

For example, Lawrence Lindsey, a research analyst at the National Bureau of Economic Research and teaching fellow at Harvard University, projects a $3.1 billion decrease this year in overall charitable giving because of the rate changes in the 1981 tax law. Similarly, a study conducted for the Independent Sector by the Urban Institute estimates that this Act will generate a $18.3 billion drop in individual contributions to charitable organizations between 1981 and 1985. Note that this figure takes into account any additional incentives created by: (1) The tax cut's release of disposable income; and (2) the Tax Act's qualification of non-itemizers for the charitable deduction. More specifically, the study anticipates a 12 percent decline in charitable giving by taxpayers in the top 15 percent income bracket, an 11 percent increase in giving by the middle 55 percent and a 2 percent increase by individuals in the bottom 30 percent income bracket. However, since 74 percent of all gifts to higher education comes from families earning more than $50,000, the study projects that over the next few years, charitable giving to colleges, universities and hospitals will decrease 3 percent (in constant dollars).

Of the new statutory provisions not directly lowering tax rates:

1. The expanded deduction for corporate contributions of scientific equipment is projected by corporate analysts to stimulate sizable increases in equipment gifts to universities. During the past decade, most university laboratories have not been able to replace research equipment at the rate at which it has become obsolete. The change in this section will provide a useful incentive for business-education collaboration on modernizing many research laboratories in public and private universities and colleges.

2. The provision extending the charitable deduction to non-itemizers is essential to providing equity for the small donor in our society. For the past decade, the Internal Revenue Service strategy encouraging most people (over 80 percent) to file the short form had the unfortunate consequence of pre-empting the incentive for charitable giving because: (1) the charitable deduction was unavailable to non-itemizers: and (2) the standard deduction did not reflect a gift allowance. This provision is expected to produce significant increases in small monetary gifts to community based charities and to a somewhat lesser degree to college and university annual funds. However, the 1986 sunset gives this otherwise solid incentive a temporary aura. Unless this provisionis extended by Congress beyond 1986, the current expiration year, its potential utility to the academic community will be substantially curtailed.

3. The tax credit provision for corporate sponsored research is anticipated, at best, to have a neutral effect on research universities, as it provides more or less equal tax incentives for in-house and university basic research expenditures. Unfortunate-

ly, an earlier House version of this provision, excluding university expenditures from the rolling (credit) base was rejected in favor of the current provision. Industry representatives maintain that such an exclusion would increase the incentive for industry support of university research.

4. The provision doubling from 5 percent to 10 percent the ceiling on deductible charitable gifts by corporations is unlikely to generate any new benefits for colleges and universities, since for the past 46 years national corporate contributions have not averaged over 1.28 percent.

5. Foundation contributions to higher education are expected to decline as a result of the new provision permitting foundations to retain investment earnings above 5 percent.

TAX EXEMPT BONDS

Finally, I would like to address a section of the Internal Revenue Code (Sec. 103) which serves higher education admirably. This section exempts interest to bondholders on obligations issued "by or on behalf of" a state from federal income taxation. My purpose in discussing these bonds (commonly referred to as "tax exempt bonds") when there has been no change in their status is to underscore the critical role they play in university planning and fiscal management.

I am informed from a variety of sources that the Administration may intend to reduce or eliminate some categories of tax exempt bonds. Should any change eliminate educational facilities bonds, health facilities bonds, or student aid bonds, every independent college in this state would be harmed. These bonds have been crucial to the ability of educational institutions and hospitals nationally to adequately finance student loans and construction facilities.

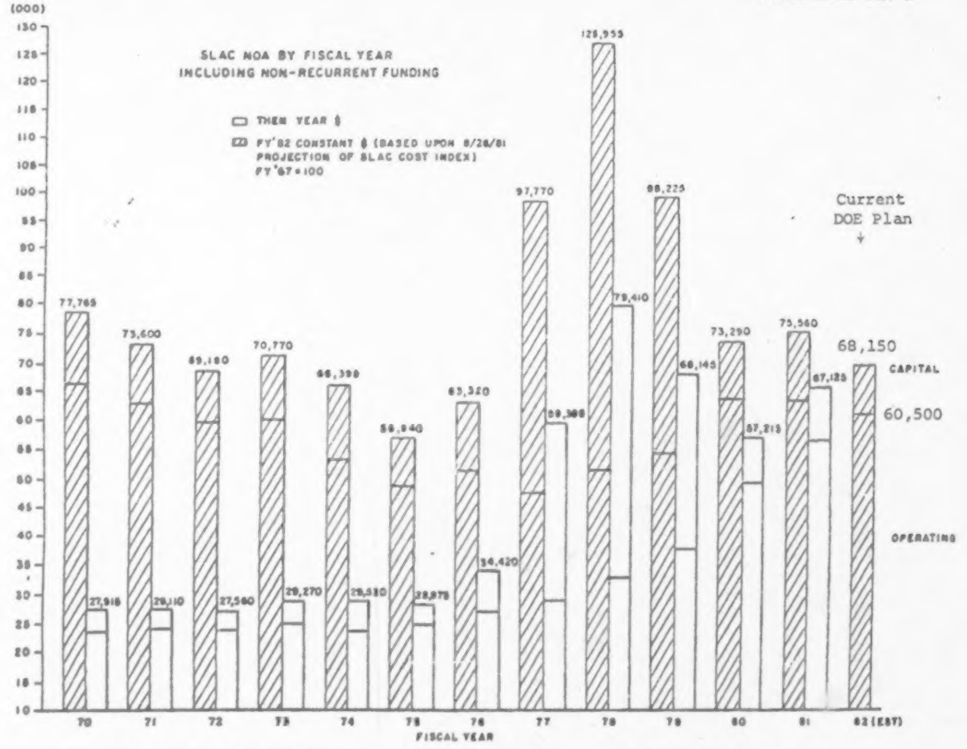
In California, educational and health institutions use tax exempt bonds issued by the California Educational Facilities Authority (CEFA) and the California Health Facilities Authority (CHFA) to finance construction projects. Bonds reviewed by these entities are secured by institutional assets. (Although a Student Aid Authority has recently been authorized, no student aid bonds have yet been issued.) Until recently, the average rate for bonds issued through these state authorities has been just below 7 percent, and although somewhat higher recently, the rate has always been considerably below the cost of capital obtained from other sources. The use of tax exempt bonds by educational institutions in California has grown so rapidly since CEFA's inception in 1973 that the statutory bonding limit of $300 million will soon be insufficient. Stanford, alone, has outstanding bonds totaling $88 million.

Tax exempt bonds at Stanford University have helped to: (1) remodel the undergraduate library; (2) construct computer and medical school facilities, as well as dormitories; and (3) renovate the History, Sociology and Communications sections of the University's quadrangle. The University's use of tax exempt bonds rather than taxable bonds has reduced institutional borrowing costs between $2 million and $3 million a year. These savings have translated into lower educational costs for students.

In conclusion, the Administration's consideration of proposals to eliminate tax exempt bonds comes at a time when nearly every federal program or tax incentive affecting colleges and universities is being substantially reduced. To deprive schools of the ability to issue tax-free bonds would all but destroy their flexibility to plan for the future, resulting at the very least in a pass-through of higher interest rates to students and their parents, and at the most in reduced construction and availability of student loans.

Of course, the sad irony of the budget cuts and tax changes designed to assist the private sector is that private higher education may suffer more than it gains.

Attachment #1



TOTAL SLAC FUNDING, INCLUDING NON-RECURRENT FUNDING EXPRESSED IN BOTH THEN-YEAR AND CONSTANT-FY1982 DOLLARS, AND WITH THE DIVISIONS BETWEEN OPERATING AND CAPITAL FUNDS SHOWN

[Attachment No. 2]

TABLE 3.—TOTAL R. & D., FISCAL YEARS 1980–82: CONGRESSIONAL ACTION ON R. & D. IN THE FISCAL YEAR 1982 BUDGET

[Budget authority in millions, fiscal years]

Agency	1980 actual	1981 estimate [1]	1982 approved by Congress	Percent change, current dollars		Percent change, constant fiscal year 1980 dollars	
				From 1980	From 1981	From 1980	From 1981
Defense (military)	$14,021.1	$17,321.6	$20,596.7	+46.9	+18.9	+23.7	+9.2
NASA	5,243.4	5,522.7	5,939.7	+13.3	+7.6	−4.6	−1.2
Energy	5,768.4	5,867.4	5,503.0	−4.6	−6.2	−19.7	−13.9
Health and Human Services	3,806.0	3,971.1	3,986.8	+4.8	+0.4	−11.8	−7.8
National Institutes of Health	(3,188.3)	(3,325.6)	(3,475.5)	(+9.0)	(+4.5)	(−8.2)	(−4.0)
Other HHS	(617.7)	(645.5)	(511.3)	(−17.2)	(−20.8)	(−30.3)	(−27.3)
National Science Foundation	911.9	933.6	970.0	+6.4	+3.9	−10.4	−4.6
Agriculture	714.3	810.4	816.0	+14.2	+0.7	−3.8	−7.5
Transportation	397.1	398.6	280.6	−29.3	−29.6	−40.5	−35.4
Interior	410.2	417.9	384.6	−6.2	−8.0	−21.1	−15.5
Environmental Protection Agency	341.6	363.1	277.0	−18.9	−23.7	−31.7	−30.0
Nuclear Regulatory Commission	190.8	216.2	231.9	+21.5	+7.3	+2.3	−1.5
Commerce	357.5	355.1	304.0	−15.0	−14.4	−28.4	−21.4
Veterans Administration	135.5	154.6	128.2	−5.4	−17.1	−20.3	−23.9
AID	122.1	122.7	118.8	−2.7	−3.2	−18.1	−11.1
Labor	248.7	127.3	81.7	−67.1	−35.8	−72.3	−41.1
Education	133.8	129.4	107.4	−19.7	−17.0	−32.4	−23.8
Smithsonian	41.7	44.9	50.7	+21.6	+12.9	+2.4	+3.7
Tennessee Valley Authority	29.7	32.1	34.7	+16.8	+81.	−1.6	−0.7
Housing and Urban Development	43.6	42.9	20.0	−54.1	−53.4	−61.4	−57.2
Corps of Engineers (civil)	29.7	30.4	30.7	+3.4	+1.0	−13.0	−7.3
Justice	39.9	24.1	24.2	−39.3	+0.4	−48.9	−7.8
All other agencies	67.3	74.3	68.6	+1.9	−7.7	−14.2	−15.2
Total R. & D., above	33,054.3	36,960.4	39,955.3	+20.9	+8.1	+1.8	−0.7
Defense R. & D. [2]	(15,430.1)	(18,987.6)	(22,393.0)	(+45.1)	(+17.9)	(+22.2)	(+8.3)
Nondefense R. & D.	(17,624.2)	(17,972.8)	(17,562.3)	(−0.4)	(−2.3)	(−16.1)	(−10.3)

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[1] As estimated in March of fiscal year 1982 budget.

[2] Department of Defense and defense activities of Department of Energy.

[Attachment No. 3]

TABLE 5.—BASIC RESEARCH BY AGENCY, FISCAL YEARS 1980–82: CONGRESSIONAL ACTION ON R. & D. IN THE FISCAL YEAR 1982 BUDGET

[Budget authority in millions, fiscal years]

Agency	1980 actual	1981 estimate[1]	1982 approved by Congress	Percent change, current dollars		Percent change, constant fiscal year 1980 dollars	
				From 1980	From 1981	From 1980	From 1981
Health and Human Services	$1,762.4	$1,862.1	[1] $1,939.6	+10.1	+4.2	−7.3	−4.4
National Institutes of Health	(1,643.5)	(1,745.6)	(1,825.9)	(+11.1)	(+4.6)	(−6.5)	(−4.0)
Other HHS	(118.9)	(116.5)	(113.7)	(−4.4)	(−2.4)	(−19.5)	(−10.4)
National Science Foundation	829.9	858.3	903.8	+8.9	+5.3	−8.3	−3.3
Defense	551.9	616.5	698.9	+26.6	+13.4	+6.6	+4.1
Energy	522.5	593.7	644.8	+23.4	+8.6	+3.9	−0.3
NASA	559.2	540.8	556.6	−0.5	+2.9	−16.2	−5.5
Agriculture	279.5	319.0	334.2	+19.6	+4.8	+6.8	−3.8
Interior	71.9	76.6	77.0	+7.1	+0.5	−9.8	−7.7
Smithsonian	40.8	44.1	49.7	+21.8	+12.7	+2.6	+3.5
Commerce	31.1	33.6	35.7	+14.8	+6.3	−3.3	−2.4
All other	66.5	68.5	[2] 61.7	−7.2	−9.9	−21.9	−17.3
Total, basic research, above	4,715.7	5,013.2	5,320.0	+12.8	+6.1	−5.0	−2.6
Defense basic research	(551.9)	(616.5)	(698.9)	(+26.6)	(+13.4)	(+6.5)	(+4.1)
Nondefense basic research	(4,163.8)	(4,396.7)	(4,621.1)	(+11.0)	(+5.1)	(−6.6)	(−3.5)

[1] Subject to application of $20,000,000 general reduction in salaries and expenses for all of HHS.

[2] Subject to application of 4-percent reduction to Labor and Education.

[Attachment No. 4]

STATEMENT ON H.R. 4326 "THE SMALL BUSINESS INNOVATION DEVELOPMENT ACT"

SUMMARY OF THE BILL

H.R. 4326 requires that 3 percent of federal agency R&D budgets over $100 million be set-aside and used to fund in each such agency a Small Business Innovation Research program (SBIR). The SBIR programs will then fund research and development projects for small businesses. SBIR set-aside funds are to be wholly additive to small business awards through regular procedures; competitive or single source awards to small businesses which do not come from a SBIR program shall not be counted as meeting any portion of the set-aside requirement.

SPECIAL CONCERN FOCUSED ON BASIC RESEARCH

There is serious concern over the direct effect H.R. 4326 will have on the conduct of basic research.

Basic research aims at the creation of new knowledge. It seeks to understand the nature of fundamental processes, the how and the why of the way things are. Basic research is not conducted with a commercial application in mind, although when fundamental knowledge is developed, later work with that knowledge frequently leads to useful application. It is widely acknowledged that basic research is utterly essential to our long range objectives for economic progress and national security. Without the new ideas and dramatic breakthroughs that only come through basic research, the best effort we can make will result in only minor improvements on what we are already doing.

In recognition of the great importance of basic research, the federal government has accorded it a special place in our national research and development effort. It is a small but extremely important part of the total federal R&D expenditures. Of our total federal R&D budget of $40 billion, only $5.5 billion (or less than 15 percent of our total effort) goes to basic scientific and engineering research.

HOW CAN SMALL BUSINESS PARTICIPATE IN BASIC RESEARCH?

Under current law, small businesses are eligible to compete with other businesses (small and large) for federal basic research contracts on the basis of research quality. Competition from all sectors (including small business) in the contract award process should be welcomed by all parties. Insofar as small business can do the high quality basic research needed, it should receive awards in open competition.

A dual process for awarding basic research contracts and grants is cumbersome, inefficient, and unnecessary. Open, rigorous, and fair competition, not a set-aside, is the best process for ensuring the highest quality research and the greatest public benefit from the expenditure of limited funds. Qualified performers—whether they be from universities, small business, or large business—should compete through a single process for research contracts and grants, and the awards should be made solely on the basis of quality.

HOW DOES THE SET-ASIDE PROVISION OF H.R. 4326 HARM BASIC RESEARCH?

Unlike a traditional set aside, H.R. 4326 does not require that a certain portion of funds for a specific purpose be set aside so that a specified performer may do part of that work. H.R. 4326 sets aside a portion of total agency R&D funds to set up a new program, the SBIR program, which may serve useful purposes but which does not necessarily have any relationship to the specific program goals from which the funds are taken. Funds taken from basic research programs will not be channeled into small businesses to do that basic research; it will be taken away from the basic research and devoted to a new purpose. [Note: the NSF SBIR program, which is the explicit model for H.R. 4326, is devoted almost wholly to applied research.]

Here is an illustration. If the Congress requires a set aside so that small businesses or minority owned enterprises are assured a certain portion of the work on government construction projects, it would mean that all the money appropriated for construction would still go to construction but that some of the work would have to go to small or minority owned businesses. The same building would be built for the same cost; only the performers of the work have been changed.

But, in the case of basic research, the basic research money set aside under H.R. 4326 does not go to continue the basic research program from which the funds were taken. It goes to fund the SBIR program. Here is another illustration. Among the most basic of all research is that funded for high energy physics by the Department of Energy. High energy physics examines the most elementary components of the atom. It is not only basic research, but it requires such specialized facilities that DOE funds only three institutions in America to conduct frontier research in high energy physics—Brookhaven in Hew York, Fermilab in Illinois, and Stanford Linear Accelerator in California.

The high energy physics program is an excellent example for several reasons. First, it is generally acknowledged that small business does not do frontier basic research in high energy physics; indeed even our great research institutions must rely on three national facilities. Second, while America has been the world leader in high energy physics research, our leadership is threatened by a decade on declining support in real dollars; Western Europe is currently spending twice as much as we are in this critical field (measured as a percent of GNP). Third, the sole source of funds is the federal government, and funds taken from the program will not be replaced by any other source. If funds from the DOE high energy physics program are set aside under the authority of H.R. 4326, the money will not go in any way to support basic research in high energy physics. It will simply be taken away to fund the SBIR program.

The question is: in a time of constricting research budgets and multiple pressures on basic research funding, should Congress take funds from basic research to set up and operate a wholly unrelated (even if worthwhile) program?

WHY DOES A 3 PERCENT SET-ASIDE MAKE A DIFFERENCE TO BASIC RESEARCH

A 3 percent set-aside in the bacis research budget represents a 3 percent loss to basic research, not a transfer of the conduct of basic research to other performers. And in the case of the high energy physics program, the funds are highly leveraged. The fixed costs of operating large accelerators are such that, at the Stanford Linear Accelerator, for example, a 3 percent cut is leveraged into a 10½ percent cut in productivity. Furthermore, accepting as a basic premise of our appropriations process that Congress appropriates only the minimum amount it determines necessary to operate any given program in any given year, H.R. 4326 would, by reducing appropriated funding levels, both undermine Congressional intent and fund basic research programs at less than adequate levels. The current budget process and reductions in federal spending are in themselves reducing some basic research programs to marginal levels. It seems especially unwise to take additional money from basic research programs, which, after all, serve important national purposes and provide the foundation for future scientific and technological development.

Chairman ROSTENKOWSKI. Mr. Laffer, a lot of water has gone under the bridge since the last time we had an exchange.

We are quite interested in what you are going to say.

Deficits have risen to a point never even dreamed of. You have some solutions, I am sure, that we are all looking forward to hearing.

There is great skepticism about that large $750 billion tax cut we passed, so I am interested in hearing what you have to say. I want to alert you to the possibility of some committee hearings in February or March. We might invite you to Washington for this, so you may want to keep some days open.

STATEMENT OF ARTHUR LAFFER, PROFESSOR OF ECONOMICS, UNIVERSITY OF SOUTHERN CALIFORNIA

Mr. LAFFER. Adding to your comments, once you find that tax rates have been reduced, you might find a different behavior. We have legislated the tax cuts, but they are phased in.

If you have a choice of earning income in a high tax rate period or a low one, which would you choose? Obviously you would choose the low tax rate period. People are postponing income realization decisions.

Chairman ROSTENKOWSKI. We signed a letter, Barber Conable, Bob Dole, Russell Long, and Danny Rostenkowski, assuring the business community that the tax incentive would be retroactive.

The business community hasn't reacted.

I feel sorry for the President because the business community has not taken the bait he has held out.

Mr. **Matsui**. I would like to say Mr. Laffer is probably correct in one analysis. We did defer our increase in salary and wages to Members of Congress so as to take more advantage of Mr. Laffer's cuts.

Chairman **Rostenkowski**. I am sorry.

Mr. **Laffer**. Let me cover a little of the points.

I chose not to be with the administration and represent myself solely. Goverment spending in a democracy is not determined by a budget bureau, by a Congress at any one moment of time. When the people want something, the Government is the means by which it can get its ends.

I have never known an economy to balance a budget on the backs of the unemployed.

I know of no moral government in a democracy that can afford to provide them with the services. Likewise, we have never seen a balanced budget when we have high and rising interest rates as we do now. The interest payments on the national debt, it has been increasing. Every 1-percent increase in the unemployment rate, because of increased welfare spending, they need welfare, unemployment compensation, the OMB estimates that as well as the Federal deficit between $23 and $30 billion a year.

If we could lower that unemployment rate to 4 percent, we would be able to save approximately $150 billion in our deficit.

Interest payments on the national debt, every 1-percent increase in the national debt increases Government spending between $7 and $8 billion a year.

If we could solve the inflation and interest rate problems, we would be able to save $75 billion per year.

When you look at people, like I hear them today, I know of no government that can really afford not to help those people. The real problem does not go away by cutting the benefits of people who are desperately in need.

Mr. Kennedy wants to reduce welfare too, but only by eliminating the people who are unemployed by giving them good high-paying jobs.

Frankly, people are postponing production decisions, income realizations decisions, because tax rates are lower. It does increase your aftertax rate of return, likewise, if you could only advance those tax cuts.

Henry Reuss and his staff director have suggested they would like to advance the tax cuts to January 1 of this year. That would make enormous incentives.

Mr. **Anthony**. I think Mr. Reuss not only proposes to advance it to January, but to eliminate it for future years. You wouldn't agree with that?

Mr. **Laffer**. I would certainly include the future years.

The other one is guarantee the value of the dollar. You never have balanced budgets with high interest rates.

That is scholarship frankly and looking at the past.

If you look at it, my advice to the committee is to bring these things forward and do them now.

In periods of peace you don't need defense spending. In periods of low interest and stable money you don't need interest payments.

In the twenties we did it by cutting tax rates and having peace. In the forties we had established peace and we balanced the budget 4 out of 5 years.

Jack Kennedy cut back rates and kept the dollar convertible to gold, and we had a balanced budget in 1965.

The notion of the myth that Jack Kennedy said, the myth that you can balance the budget by raising taxes is nonsense.

You have to eliminate unemployment and inflation. You have to make it worth while to work now, not 3 years from now, but now.

None of these things have been done. Spending cuts should follow tax rate reductions. You always cut spending in an up economy.

School lunch programs appear very small if people have high paying jobs, and I advise you strongly, you should have the tax cuts first and not worry about the spending programs now.

Once you get full employment, low interest rates, and acquire peace, you will have a balanced budget and that is where I still am.

Chairman ROSTENKOWSKI. Thank you.

Mr. Wright.

STATEMENT OF OSCAR WRIGHT, PRESIDENT, ALLIANCE OF BLACK CONSERVATIVES

Mr. WRIGHT. Thank you.

My name is Oscar Wright, president of the Alliance of Black Conservatives and I offer you a different point of view than perhaps what you have heard heretofore.

"Give a man a piece of fish and he eats but one meal. Teach him how to fish and he eats for the rest of his life."

With that philosophy in mind, I come before you this morning as the son of two uneducated, but proud domestic migrants who actually fled the South in 1957. That was 25 years ago.

Today my parents are still devoid of a formal education, not having the simple ability to read and write. The very basics of our English language is foreign to these two native Americans. Yet, despite their severe handicaps, Melvin and Lola Wright own two homes, three cars and have in their possession two bank accounts.

Within the short span of 25 years, they have dramatically elevated their economic status not by welfare, CETA, or affirmative action, but by faith, family, and hard work.

While many of our so-called leaders were traipsing across the county echoing the eloquent slogan, "I am somebody," my parents were toiling 7 days a week proving themselves and for all to see that they are somebody, not in words, but in deeds. Their story is not a mystery, it's American.

Many of you will be surprised to find out that 83 percent of black Americans work for a living; 77 percent of black Americans are not on welfare; 62 percent of black Americans do not live in poverty.

The total aggregate annual income of black Americans is in excess of $130 billion.

Yes, there is great diversity in the black community. We are not all poor and we are not all on welfare and we are not all monolithic in thinking.

Who speaks for the working black American?

Just recently Julian Bond from Atlanta, Ga., responded to my views by stating:

"To think that blacks will be able to achieve any quality in this white-controlled society without any government assistance is just stupidity."

Well, not only will Julian Bond's approach not eliminate poverty, it will, in effect, perpetuate poverty by making mental slaves of the poor, restricted by the chains of governmental dependency.

My parents need government assistance about as much as a cemetery needs a fence. Commonsense would tell you that a rising tide raises all boats—black boats as well as white boats—poor boats as well as rich boats.

It is my sincere belief that the rhetorical question, "What impact will Reaganomics have on the black community" is analogous to asking newlyweds in January 1982 their opinion of marriage since October 1981. It is simply too early to make a rational assessment.

We have not had 78 days of full Reaganomics, but we have had 78 days of political misinformation and contrived confusion. Reaganomics may, indeed, be on trial, but its predecessors have been tried and convicted.

Jimmy Carter promised all blacks a job. Andy Young got the job.

Rev. Jesse Jackson states that all proposed Federal cutbacks will inadvertently affect the black community. I take issue with that prognosis. Not all monetary cutbacks will serve to the detriment of my community, especially the proposal to cut back Jesse Jackson's flight itinerary.

Many of the great social programs of the sixties were ill-conceived, overfinanced and tragically unproductive. They created the illusion of inclusion. They confused motion with progress. They gave the disadvantaged a disincentive.

A prominent economist once noted that we have expended enough money on poverty programs to guarantee each poor person in this country $30,000. Show me one poor person with $30,000.

Many so-called leaders have stated that the predominant issue is guns versus butter. In other words, the current administration is cutting back needed social programs to arm the military.

Well, someone should have awakened me. Apparently I was asleep when our national security became an option.

Chairman Rostenkowski. Mr. Gevirtz.

STATEMENT OF DON L. GEVIRTZ, CHAIRMAN, FOOTHILL GROUP, INC.

Mr. Gevirtz. Mr. Chairman, my name is Don Gevirtz. I am chairman of the board and chief executive officer of the Foothill Group, Inc., a Los Angeles based financial institution which provides credit to more than 10,000 small and medium-sized businesses throughout the United States.

Although it is a distinct pleasure for me to appear before this distinguished committee of the Congress, the message I bring to you today is not a happy one.

Over the past decade since I cofounded Foothill, I have had the opportunity to work with many small entrepreneurial companies unable to borrow from the banking system, but rarely have I ever seen these entrepreneurs in a more desperate condition than is the case today.

In the last year, business bankruptcies have shot up a staggering 42 percent, 90 percent of them small firms. This lamentable condition can be traced, at least in part, to the negative effects of present government policy on the 12 million small and high technology companies in this country.

These small businesses—of 500 employees or less, with $10 million or less in sales—produce 35 percent of the gross national product and provide 50 percent of all private sector jobs in this country.

Indeed, over the past decade, small business has been responsible for four-fifths of all new jobs. If we could create a healthier environment for these entities so that each could singly add one new job per year, we could create 12 million new jobs.

Given these facts, it is indeed tragic that the Reagan economic program decidedly favors large, multinational companies over smaller firms.

A prime example can be seen in the Economic Recovery Tax Act of 1981 that favors the depreciation schedules of large equipment-oriented companies over the smaller labor-intensive service and retail fields. This new tax law established a safe harbor within which taxpayers may now purchase and sell Federal income tax benefits associated with tangible personal property.

Small companies received only minimal benefits in the sale of their depreciation tax credits in the last cycle of selling, while Wall Street lawyers and middlemen reaped huge fortunes handling such transactions for large corporations throughout the country.

Arguably, the new depreciation schedules might help prop up some weak companies in declining industries like autos and steel. But they will do little to help the high technology entrepreneur fighting for his life against determined Japanese and other foreign competition, since their production equipment changes very rapidly. Similarly, the accelerated cost recovery system and the safe harbor rule fail to give adequate incentives for productivity and offer practically nothing for small companies. Of these tax cuts 80 percent will go to large companies.

Even today's high interest rates—caused largely by soaring budget deficits created by many administrations—can be utilized more fully by large companies than small firms lacking the scale of profitability to take advantage of interest-related deductions.

Although sold as a program to make American business more competitive on the world market, this Government's economic package of antismall business bias actually threatens to undermine the innovative process which offers the Nation's best hope for regaining its economic supremacy.

This is because it is small companies, not large corporations, which have historically provided the highest degree of industrial innovation. Indeed, a National Science Foundation study recently concluded that small businesses produce 24 times the number of innovations per Federal research dollar than large firms do.

Innovation, it is important to point out, stands at the core of this Nation's ability to boost productivity. Between 1948 and 1969, a full 50 percent of production increases were the direct result of entrepreneurial technological innovation. Research-intensive manufacturing industries boosted the Nation's export surplus in that period from $5.9 billion to $29.3 billion, while large scale industries without strong innovative tendencies, such as auto and steel, declined $16.5 billion, and by the late 1970's contributed greatly to the Nation's chronic trade deficit.

In the last decade, technological industries, still largely the province of small entrepreneurial companies, grew at a rate three times that of the low technology, big corporations favored so much by the Reagan economic package.

Next, I would like to turn briefly to the effects of the massive projected $100 billion Federal deficit projected for 1982. It is clear to perhaps everyone but the most fervent supply siders that huge Federal deficits mean ever higher interest rates, followed by deepening recession.

The long-term bond market, practically dead in the water now, is simply no longer a viable source of credit for most companies. Many lending institutions are seriously considering the elimination of fixed rate, long-term debt commitments. This development would leave many business executives without an ability to plan their own borrowing costs.

While these developments may finally discredit supply side economics for the foreseeable future, the traditional anti-inflation policies of recessions to cut wage gains will no doubt have a chilling effect on investment and capital formation. With the return to past policies used by administrations of both parties, we are likely to experience a continuing pattern of on-again, off-again growth, the sort of stagflation which has already eroded our international economic power to a frightening degree.

To break out of this cycle of stagflation, the administration and Congress must find ways to improve the entrepreneur's opportunities to grow in our economic system, while bringing down these massive deficits. The logical starting point would be the establishment of a new, long range industrial strategy to set the Nation's goals and objectives.

This strategy should be oriented toward improved productivity and economic growth. Emphasis should be on incentives for small and medium-sized firms through such tax reforms as the gradual elimination of capital gains taxes. For example, Governor Jerry Brown in California has eliminated the State capital gains tax on equity investments in small companies if those investments are held for 3 years.

In addition, this national strategy should be focused on fostering high technology companies rather than sustaining the old industrial giants of the past.

In this respect, we should follow the example set by Japan's MITI plan for the 1980's which provides for the orderly transfer from such industries as steel and shipbuilding to the newer technological industries of this postindustrial era.

Likewise, we should avoid the sort of desperate, stop-gap funding of inefficient, old industries which has dominated the economic strategies of England and other fading European nations.

Specifically, we should eliminate the safe harbor clause of the Economic Recovery Tax Act of 1981. During the 3 weeks prior to the closing of the November 13, 1981 window for leases of 1981 equipment, tax ownership of an estimated $10 to $15 billion in equipment changed hands in safe harbor transactions.

For comparison purposes, the estimated volume of leasing during all of calendar 1980 was approximately $23 billion.

A more focused and equitable use of tax credits to improve productivity would be an increase in the investment tax credit from 10 percent to 15 percent of the purchase price of productive equipment.

The adoption of an industrial strategy would, of course, represent a major change in the traditional economic policies of the Federal Government, but such a drastic change is, I believe, absolutely necessary for the continued health of our economic and political system.

As the great 18th century British conservative leader, Edmund Burke, once observed, "A state without the means of change is without the means of its conservation."

Chairman ROSTENKOWSKI. Thank you.

Mr. Garcia.

Mr. Garcia, you are going to summarize, I assume?

Mr. GARCIA. Yes, I certainly am.

STATEMENT OF LOUIS N. GARCIA, EXECUTIVE DIRECTOR, UNITED WAY OF CALIFORNIA

Mr. Chairman, I am Lou Garcia, executive director of United Way of California, the State association of California's 40 local United Way organizations. In 1980, California United Way raised $130 million to help support more than 1,300 local health and human service organizations with combined budgets of almost $600 million. These voluntary service providing agencies are run by more than 45,000 local volunteer leaders representing a true economic, political and social cross section of California.

On behalf of this large constituency, I thank you for the opportunity to testify this morning about the impact that the Economic Recovery Tax Act of 1981 and the Omnibus Budget Reconciliation Act of 1981 are having on voluntary agencies and the people we serve.

My comments are based on numerous conversations with United Way volunteers and staff from around California, as well as the analysis of data provided by various United Ways.

To the extent possible, I have tried to reflect accurately the opinions and perceptions of United Way's leadership from around the State, but in the final analysis, these comments are mine.

I learned a long time ago that local United Way volunteers can and often do express their own opinions about community affairs.

Our leaders hold disparate views, but they agree steadfastly about the central purpose of the United Way which is to bring community leaders together to understand and accept responsibility for helping to fill local social, health, and welfare needs.

My testimony will focus on the following:

The effect of the Economic Tax Recovery Act on charitable contributions; the impact of the Omnibus Budget Reconciliation Act on the budgets of United Way supported agencies and the people these agencies serve, and aspects of the decentralization of responsibility for health and social services to State and local governments as this decentralization affects voluntary organizations.

Economic Recovery Tax Act of 1981:

From the donor's standpoint, there are many ingredients which determine whether a charitable contribution is made or increased. The most important factors include perceived community need, availability of discretionary income, and tax incentives.

Recent public opinion polls confirm what United Way volunteers are finding during solicitation appeals. Working people perceive that the need for charitable giving has increased, due in large measure to reduced government services caused by budget reductions, inflation and recessionary pressures.

For this reason, giving to United Ways in California is up. This is good news because per capita giving levels in California have historically trailed the Nation rather badly.

For example, in 1980 United Way of Metropolitan Chicago raised $11.97 per capita compared with only $7.96 per capita in the San Francisco Bay area.

In 1981, Chicago's per capita giving dipped slightly to $11.28 while the bay area's increased to $9.10. Overall, United Way giving in California is running ahead of the annual rate of inflation, something we have not been able to do since the Korean war.

The perception of need is a great motivating force, but without discretionary income, the donor cannot act on his or her altruistic impulses.

The Economic Recovery Tax Act of 1981 included several features which will spur increased giving.

First, for the average working person, the reduction of tax rates increases the amount of discretionary income for which one of the competing demands is the charitable gift.

With an increased donor understanding and awareness of community needs, lower tax rates will, in time, translate into new and increased charitable contributions.

The 1981 Tax Act also included a provision spearheaded by Representatives Gephardt and Conable of your committee, which allows persons using the standard deduction to begin receiving a partial deduction for contributions made to charity.

Since almost 80 percent of all taxpayers now use the standard deduction, the Gephardt-Conable provision restores the charitable tax incentive to the vast majority of middle and lower income people.

This is the group that supports community based health and social service programs. United Way began educating donors of this new tax incentive during our fall, 1981 campaigns.

A typical standard deduction user giving $100 to charity can now contribute an additional $7.50 tax-free. Volunteer fund raisers believe that the effect of the new provision will increase both the number and size of gifts.

In summary, the Economic Recovery Tax Act is helping to generate increased charitable dollars for community services supported by lower and middle income working people.

However, as I will point out next, the need for charitable giving is so enormous that additional tax incentives are required.

For this reason, I recommend that the Economic Recovery Tax Act be amended this year to provide for the immediate, full implementation of the Gephardt-Conable provision, which is now being phased in incrementally.

Next, I recommend that the Ways and Means Committee begin examining specific plans which target tax credits for donations to human services in addition to our current system of deductions.

This should be carefully done in consultation with representatives of all segments of the philantropic sector. No one is naive enough to think that the current state of the economy will permit the institution of a tax credit in the next fiscal year, but a full and open debate of the issues will, as experience with the Gephardt-Conable provision shows, take several years.

I urge you to begin now so that all options may be clearly debated while the economy turns around.

Omnibus Budget Reconciliation Act:

The enactment of the 1981-82 Federal budget forced United Way to examine more closely than ever before the nature of our partnership with government. We found that by the early 1970's, the fund raising efforts of voluntary agencies could no longer keep pace with inflation.

Many voluntary organizations began to view participation in government programs as the road to survival. At this precise time many Federal assistance programs were consolidated and decentralized. Local governments received more control over administration of Federal urban social programs.

In 1972, Congress enacted the general revenue sharing program. This was followed in quick succession by the Comprehensive Employment Training Act [CETA] in 1973, the Housing and Community Development Act [HCDA] in 1974, the social services amendments—title XX—in 1974 and the Older Americans Act in 1975.

These programs offered major opportunities for voluntary agencies.

Within a few short years, voluntary agencies became an integral part of the public services delivery system. Yet few public officials and fewer taxpayers were aware that many publicly supported health, welfare, and other services were being provided not by public employees, but rather by the employees and volunteers of community-based organizations.

The State's 1,300 United Way supported agencies now receive on the average more than 45 percent of their total revenue from the government. This general review of the government funding of the United Way supported agencies shows that for every United Way dollar an additional $3.26 in government revenues was generated.

The highest ratios are found in the following fields of service:

Income security, employment and economic development, 11.32; food, clothing, housing and transportation, 11.05 and physical health, mental health and developmental disabilities, 9.33.

These categories of public expenditure are among the hardest hit by budget reductions. Simultaneously, United Way and other community based service providers are experiencing increased service demands as a result of public service cutbacks.

The preliminary data cited above prompted United Way to survey in-depth seven large California United Ways. These seven organizations raised $110 million, or 84 percent, of all campaign revenues raised by California United Ways in 1980.

It is estimated that this also represents upwards of 85 percent of all government funds in United Way supported agencies throughout the State.

Among other facts, this study found:

Funds from the public sector—Federal, State, and local governments—accounted for $271,082,313 million, or 49.3 percent of the budgets of United Way agencies surveyed.

The largest, single source of public funds—74.3 percent—were from Federal sources. State funds accounted for 24.3 percent; local governments—cities and counties—accounted for 1.4 percent.

United Way agencies can expect to lose upwards of $28,187,441 million or 14 percent in Federal funds in 1982 as a result of the Omnibus Reconciliation Act.

The most significant cuts will occur in CETA public service employment, community services administration, CSA funds, Older Americans Act, legal services, revenue sharing and refugee assistance.

To offset the loss of Federal funds—in strict dollar terms—United Way campaign revenues must increase more than 25 percent over revenues from the previous year.

Since the average campaign goal for the seven United Ways is 10.5 percent, this short-fall cannot be overcome, at least in the short run.

As these figures indicate, United Way supported agencies will be hard pressed to maintain existing services. As new funds are raised, volunteer leaders must consider all fields of service as well as the damage leveled on existing voluntary services by a decade of double-digit inflation.

It is too early to measure the full impact on the consumers of service because many of the reductions have not yet been fully implemented.

However, some alarming trends are being felt.

Among the front line troops of the United Way are the information and referral workers who help people in need get connected with services.

The new year found a communication from such a worker on my desk. It reads in part:

We have been receiving an increasing number of requests for services to meet basic needs. The clients making these requests are either receiving public assistance or are what we call the working poor. These individuals and families are unable to make their monthly checks stretch to cover rent, food, and clothing and often need ongoing assistance.

Unfortunately, resources in these areas are limited or nonexistent representing gaps in the human service delivery system.

For example, an individual receiving general assistance receives $9 a week in food stamps, an inadequate amount to cover the high cost of food. Let me add parenthetically that the average single person household in America spends an average of $34 per week for food according to a 1981 Gallup poll.

However, the only emergency food programs are for one-time only requests, negating the need by many for ongoing food assistance.

Service-providing agencies will be able to quantify the full impact of the new Federal policies over the next few months. But statistics alone will not tell the story of the people and families affected.

United Ways have been doing more than trying to raise substantial amounts of new dollars to ease the transitional problems caused by these new Federal policies. The following activities illustrate how some local United Ways are responding to emergency problems and to the complicated problems involved in refashioning the human services system:

In Fresno, United Way has reallocated an additional $17,000 to purchase food for distribution by several United Way funded food projects to help offset increased referrals from the county welfare department. Demands for food are running about 50 percent ahead of last year.

In San Diego, United Way funding has allowed reopening of the Salvation Army emergency lodge which accounts for approximately 50 percent of all emergency beds in the county for battered spouses and their children, and for indigent families losing housing due to cuts in AFDC payments. Previously funded by county government, this program was defunded with 340 days' notice.

In Santa Clara County, United Way has decided to focus the allocation of new dollars to selected programs in three specific fields of service; employment assistance, physical health, and food distribution programs.

In Ventura County, United Way has assumed funding a countywide information and referral service previously funded from the county government's title XX allotment.

In San Diego, United Way and county government have commenced a joint human needs assessment program to improve priority setting.

In Fresno, United Way, on behalf of the communitywide human services coalition requested the Fresno City Council to conduct an assessment of the most critical human needs in Fresno. On a 5 to 1 vote, the city council directed the city manager to make this needs assessment.

In Los Angeles, United Way, with Los Angeles County, is reviewing the issue of health care for the medically indigent, and studying the value of a top level task force to recommend appropriate roles for the public and private sectors.

In San Francisco, United Way priorities have been revised placing greater emphasis on food distribution, information and referral services, and community volunteer services. High priority for emergency services has been reaffirmed.

Long term adjustments in the priorities and activities of United Way and other voluntary organizations awaits a clearer picture of what State and local government agencies will do as they carry out the new Federal Government policies.

Furthermore, daily rumors fuel anxieties about Federal budget cuts being planned for fiscal year 1982–83.

Until some modicum of stability is restored to funding patterns at all levels of government, it will be difficult for the voluntary sector to decide where its dollar will do the most good.

Historically, voluntary dollars have emphasized services not well funded by government.

Today in California, voluntary sector funding represents only 6.5 percent of total social welfare expenditures, down from 8 percent in 1950.

Now that government is withdrawing from so many fields of service simultaneously, the voluntary sector must carefully re-examine its priorities.

Very few things are certain in this period of transition, but it is clear to me that United Way volunteer leaders believe that income maintenance programs are the province of government and should remain so.

Decentralization of Human Services:

Let me turn to the more nebulous notion of decentralization. United Ways are local phenomena. As local community coalitions, United Ways link donors through service agencies to people in need.

It is in keeping with the grass roots nature of our system that United Way welcomes the basic decentralizing thrust now evident in government programs. An opportunity to sort out rationally the appropriate roles for government at all levels and the private sector is long overdue.

We must determine what functions should be handled by the public or private sector or by specific levels of government. This analytical task will be difficult; surpassed only by the task of reaching consensus on how to achieve a new distribution of functions.

Hopefully, the result will be a more efficient and effective use of all resources.

United Way believes that all levels of government have important social policy roles to play. However, the current myriad of programs, rules, regulations and guidelines results in a fragmented, disjointed and contradictory system often as confusing to the people charged with administering it as it is for the people who are supposed to be served by it.

For this reason, United Way supports efforts to consolidate and decentralize human service programs to the extent possible.

This must be done, however, in such a way that protects the rights of all citizens and insures public accountability.

Generally speaking, we believe that the assessment of local human needs and the determination of program objectives should be left to local government. This must be carried out in an open, participatory process which provides maximum opportunities and accessibility for consumers and providers of service, neighborhood and community groups and the general public to assist in the formulation and execution of local decisions.

At the State level we are now working to achieve further decentralization with regard to block grants enacted last summer by Congress. As one local United Way volunteer put it recently, "We are concerned that mandates from Sacramento not replace mandates from Washington in other than broad policy guidelines."

Why does United Way hold these beliefs?

First, decentralization is inevitable in a society which is demassifying as one social commentator puts it. People simply want more control over their own lives and families.

The fragmented system dictated by huge, distant bureaucracies makes it impossible to deal with people, families, neighborhoods or communities in a holistic manner.

Second, the time has passed, if indeed it ever existed, when solutions designed in Washington or even Sacramento are relevant for current and future problems.

Our states and communities are too diverse for this kind of thinking.

As a case in point, California is different from any other State. One need only examine our population structure to realize this point. The 1980 Census reveals that 40 percent of all Chinese, 46.2 percent of all Filipinos, 37.4 percent of all Japanese, 29.3 percent of all Koreans, 34.2 of all Vietnamese and 31.1 percent of all Hispanics living legally in the United States reside in California.

These ethnic groups represent 24 percent of the State's population, but they are not proportionally distributed throughout the State's 58 counties. For example, nine California counties, including Los Angeles, have Hispanic populations exceeding 25 percent of the total population.

The Hispanic population of Los Angeles County, 2,093,744, exceeds the entire population of the State of Maine, 1,844,660.

Can Congress design a program to serve Maine and Los Angeles county equally well?

Immigration brings special problems associated with people often abruptly uprooted from their homelands. Just as it took several generations for Polish-Americans and Irish-Americans to rise to leadership in national institutions so will it be with California's rapidly growing Hispanic and Pacific Asian populations.

Yet national statistics do not indicate the immediacy of the need in many California communities.

Before these ethnic groups can generate the clout necessary to influence State and national institutions, they must first develop grassroots social and political organizations.

Local institutions, being called upon to respond to the needs of arriving immigrants, need more resources and flexibility.

The third reason for supporting greater local control and flexibility deals with the lack of broad-based community support. Ownership of human service programs and the responsibility for meeting human needs must be returned directly to the people. We have tried to make it too easy for people by letting Washington and Sacramento decide.

Only when people, through local citizen review of need, become more personally involved will they renew their commitment to pay by taxes and charitable contributions for programs to help their less fortunate neighbors.

The fact that charitable giving, after years of decline, is now on the upswing, may suggest that people are willing to begin buying back local control.

Finally, I believe that block grants can initiate the process of restructuring the human services delivery system.

After all, what is United Way if not a type of nongovernmental block grant administered by local citizens.

Locally United Way seeks consensus on the allocation of donor-generated funds. This results in a unifying force which brings diverse elements of our communities closer together.

United Ways stand ready to work together with local, State and Federal Government officials to help ease the transition to a more decentralized system of human services.

Thank you for inviting me to testify this morning.

Chairman **Rostenkowski**. Thank you.

Mr. Pickle.

Mr. **Pickle**. I think this has been an excellent panel and you have given us lots to think about.

Again, we have got to recognize the fact that we have cut some $40 billion in spending this year, and we are going to be asked to cut another $20 to $30 billion.

That is going to hurt the way local and State governments operate today. Everyone here, I am sure, is sympathetic about it.

Since we passed the Reconciliation Act, we got a deficit of $100 billion, upward to, in the next 2 years, $140 to $150 billion.

The American people are asking us, how can we reduce the deficit? I don't think it is enough to say, well, part of that is interest on the national debt, high unemployment.

What do we do about it?

Mr. Laffer seems to think we don't do anything about it, let it run its course.

The American people are asking what can we do to reduce the deficit. I would like for any of you to respond to that.

Mr. **Laffer**. I would love to respond.

When you look around the world at different places, you look at what countries have deficits and which ones don't.

What country in Western Europe has the lowest tax rates? Switzerland.

Does Britain have high or low taxes, balanced budget?

Mr. **Pickle**. A minute ago you said spending does not bother you. As a matter of fact, we should continue to spend.

Mr. **Laffer**. Continue the programs. Reduce spending by eliminating the amount the person who is unemployed gets, providing them with good high-paying jobs.

Chairman **Rostenkowski**. We were told that, if business made their investment, everything would work out?

Mr. **Laffer**. If you change the taxes——

Chairman **Rostenkowski**. We didn't do enough?

Mr. **Laffer**. You postponed the tax cuts. Seriously, you don't make taxes way lower this year and expect employment to boom this year.

Kennedy had the same problem in 1961. 1963 was a sluggish year, but the years 1964 and 1965, the budget was in balance. That is how you go about doing it.

Don't make it worthwhile to postpone and delay income and expect to collect the receipts now.

People work to get after-tax dollars, not pre-tax dollars.

Mr. **Pickle**. How are we going to get our deficit under control, by just letting it go like it is now?

Mr. **Laffer**. Advance the tax cut to where it is not worthwhile postponing income any longer.

No. 2, go back to dollar convertibility. The interest payment on the national debt is enormous. Cut it in half and you would have $55 billion.

The interest on it has been growing enormously.

Guarantee the value of the dollar and eliminate the depreciation of the dollar over time.

Everyone guesses what the depreciation of the dollar is going to be 20 years from now.

Mr. **Russo**. Will the gentleman from Texas yield?

Mr. **Pickle**. I yield.

Chairman **Rostenkowski**. The Chair would like to make an observation.

I have just been informed that we are going to have to surrender this room in 10 minutes, so I would like my colleagues to limit themselves to one question. I am very disappointed that we have to do this.

Mr. **Pickle**. We are going to have to raise some revenues or cut into the defense, cut into the entitlements, rather than just say the tax cuts will do it and that will do it alone.

Chairman **Rostenkowski**. Mr. Martin.

Mr. **Martin**. Dr. Kennedy, good to see you again. I notice that you mentioned that we were not able to get the research tax credit for universities, institutions of higher education generally into the tax bill.

My impression was we did get it in both the committee bill and the substitute, and I would appreciate it if you would reflect on this and give us a bit more analysis as to what the problem is with what we did so we can try to work on improving it.

Mr. **Kennedy**. That is a welcome invitation. It involves our being included in the rolling base and I will be happy to supply you with more information.

Chairman **Rostenkowski**. Mr. Gephardt.

Mr. **Gephardt**. The President says he wants to be judged on how this economy works.

A lot of people say his economic theory is based on what you and Jack Kennedy have espoused.

Since we have put this program in place, we have had the jobless rate go up, and the number on unemployment is the highest since the seventies, adult male unemployment the highest since the thirties, and the trend in bankruptcy is up.

What has to be done to put the economic program in place and how long do we have to wait to judge whether or not your theory is right?

Mr. **Laffer**. The economic program has not been put in place yet. Some of the legislation has been passed but it is not in place yet.

Mr. **Gephardt**. When will it be in place?

Mr. **Laffer**. In 1984, you will have the personal income reductions.

We are hoping to have the whole 30 percent cut by the beginning of 1983 is the way we proposed it initially. In my testimony before you people, I have never argued in favor of cutting these programs that are based upon need.

Mr. **Gephardt**. If we moved all those cuts back to right now?

Mr. **Laffer**. You are cutting programs. You have cut forecasted spending. Assume the unemployment rate stays constant.

Mr. **Gephardt**. Corporate.

Mr. **Laffer**. Corporate, you have done, and done depreciation. We have all argued and you got a poll from all of us, sir, cut the rate or put in the depreciation.

Every one of us on our panel said we would rather cut the rates as you recommended. We all backed your program, cutting rates rather than depreciation. That can't be considered my program. I would much rather have the rates as you suggested.

Mr. **Gephardt**. Rates are the key and the individual rates as of 1984 have to be moved back?

Mr. **Laffer**. That would be the whole point, so people don't have an incentive on postponing income realization decisions.

Whenever you make tax rates lower in one location, then people move and you are seeing right now the movement.

Mr. **Gephardt**. I am sorely disappointed Ronald Reagan is not giving your program a good test. We thought we were going to get the test.

Mr. **Laffer**. Yes.

Chairman **Rostenkowski**. Mr. Russo.

Mr. **Russo**. Mr. Laffer, in response to Mr. Pickle you said that the problem could be solved if we moved the tax cut forward, which would give us a larger reduction in revenues.

Mr. **Laffer**. No.

Mr. **Russo**. OK, a monetary conversion.

Moving the tax cut forward would actually generate, I take it, more revenues?

Mr. **Laffer**. Frankly, what you have right now if you talk to IRS agents or anyone who deals on this level, people don't pay 70 percent rates.

They hire lawyers and accountants to do the job. The pre-tax yield has to be 33 percent or 23 percent in real tax yield.

Mr. **Russo**. With unemployment where it is today, with interest rates where they are today, moving the tax cut up to the present time, which would put the rate reduction to 30 percent right now, how is that going to balance the budget?

Mr. **Laffer**. You will find people unemployed.

Mr. **Russo**. The tax cut, 25 percent for business, 75 percent for individuals.

Mr. **Laffer**. It makes it worthwhile for people who are making investments and employment decisions to do them now. If you postpone it to next year, you make even a lower rate.

It is worthwhile postponing income decisions. It is why 1961 was the trough of the 1960's recession.

Mr. RUSSO. The difference with the Kennedy tax cut was the period of time when there was a tremendous amount of industrial capacity to grow, and the inflation rate was down considerably.

Interest rates were about 3 or 4 or 5 percent, so you can't compare apples with oranges.

Mr. LAFFER. That means tax cuts should be smaller, not larger.

Chairman ROSTENKOWSKI. Mr. Bailey?

Mr. BAILEY. Thank you.

I remember your testimony before the committee. You are backpedaling quicker in some ways than Mr. Reagan did on his social security issue.

You apparently were dissatisfied with the October 1 postponement of the first year tax cut.

Mr. LAFFER. Correct.

Mr. BAILEY. The decisions that you think people are going to make as economic factors out there based upon personal income tax requirements, I just don't think is a good connection.

I want to ask you if you would comment very, very quickly on aggregate savings, and what your predictions are again because you were predicting 0.4 to 0.6 aggregate savings increase.

Mr. LAFFER. I never gave a number.

Mr. BAILEY. Oh, you didn't. I asked you the question in response to testimony elicited from Secretary Regan and I will get the testimony and send it to you.

What do you predict as an increase in aggregate savings as a result of the modified Reagan program?

Mr. LAFFER. You are going to see an increase in the savings rates and I don't know the exact numbers.

Mr. BAILEY. You got a bet.

Mr. LAFER. We got a bet.

Mr. BAILEY. I would just say that some of the distortions in our tax policy in the past, I don't like the leasing vehicle. I disagree with you on the needs that it served for our Nation in a number of different ways and we have a number of distortions that really militated against any kind of long-term capital incentive investment in the country, and we have to recognize the capital incentive industries in this country are suffering.

Mr. GEVIRTZ. Most of the small companies got no benefit at all from the safe harbor provisions.

Mr. BAILEY. We had a targeted amendment that would have reduced the Treasury drain by doing some of the things that safe harbor leasing does indirectly.

We would have kept that loss to $3 and $4 billion and given them more flexibility, but the spillover as a result of the more general application of the liberalized leasing provisions—what benefits do go to small business—well, there are quite a few benefits that do go to small business.

Mr. GEVIRTZ. We have not seen any, sir.

Chairman ROSTENKOWSKI. I want to thank you, gentlemen, for participating in this panel discussion. I am sure we could carry on until 5 o'clock.

Thank you all for coming. I want to thank Congressman Matsui for his hospitality.

[Whereupon, at 1:30 p.m., the committee was adjourned.]

[The following was submitted for the record:]

Area 4 Agency on Aging
1820 J Street — Sacramento, CA 95814 — 916/447-7063

January 27, 1982

Mr. Ken Bowler
Committee on Ways and Means
U.S. House of Representatives
B-317 Rayburn Office Building
Washington, D.C. 20515

Dear Ken:

Thank you for holding one of the U.S. House of Representatives Committee on Ways and Means field hearings in Sacramento on Monday, January 18, 1982, and inviting written information regarding the impact of federal budget cuts.

In 1978, the Area 4 Agency on Aging conducted a comprehensive Needs Assessment with the University of California, Davis. When asked about problem areas, persons 60 years of age and older who were interviewed cited the following as the top five problem areas: income, crime, loneliness, health care, and transportation. Many of the programs which have had to cut services to the elderly due to cuts in federal funds addressed these problem areas.

Federal cuts in funding have indeed had an impact on the lives and well being of many older adults throughout the seven-county planning and service area of the Area 4 Agency on Aging. Examples of the impact follow:

1) CETA. Within the region, there have been a total of 65 positions eliminated from agencies serving persons 60 and older. This is a total of approximately $465,000/year in salaries. As a result, these programs have had to cut hours, range and/or quality of their services to the elderly. Some have recruited volunteer assistance with varied success. Most have pursued alternative sources of funding, but have had little if any success. An example of the impact of the loss of CETA on one program serving senior citizens is as follows:

> Camellia City Center, visited by members of the Ways and Means Committee when they were in Sacramento, lost four Human Services Outreach CETA workers. Because of this loss, Camellia City Center no longer has the capacity to provide outreach to the low income, frail elderly in downtown Sacramento, an area with the greatest concentration of single, low income elderly. This frequently was the initial point of access to needed health and supportive services which helped older people maintain an independent living situation. In one instance the van driver noted that a regular rider no longer made use of the transportation service. The rider was a 72 year old woman and a known cancer patient who lived alone. The driver finally made a home visit one evening on her own time and found the woman dead - a woman who spent her last days alone and in pain. If a referral could have been followed up immediately, perhaps this woman might have received medication which would have eased her pain and she might not have had to die alone.

2) Revenue Sharing. Sacramento County has had to cut programs which specifically serve senior citizens by $195,000 this past fiscal year. These monies augmented federally funded congregate nutrition programs within the county. Similar cuts were experienced by other programs in other counties throughout the region.

3) Title XX. Due to cuts in Title XX funding, there has been a shift in the focus from that of prevention to that of intervention only in crises situations. This is most costly - both to the individuals in crisis which perhaps could have been prevented, as well as to the "system", which must now respond with time and cost intensive services.

4) It has also come to our attention that the Office of Management and Budget and the Department of Labor have recommended that the Title V, Senior Community Service Employment Program be eliminated. As noted in the A4AA/UCD Needs Assessment, income is the single most significant problem area as seen by persons 60 years of age and older. The Title V program addresses this issue in a positive manner. In addition to the needed income, this program provides opportunities for older persons to gain needed skills and incentives to enter into unsubsidized employment. The program provides older people a sense of self worth and assists them maintain independence with dignity. Title V positions are placed within non-profit agencies, many of which are those same agencies impacted by federal funding cuts. Additional cuts will result in fewer hours, range and/or quality of supportive services currently available to senior citizens in our region.

We hope this information will be of assistance to your committee. The time spent by committee member visiting participants at the Camellia City Center is much appreciated. Our goal is to assist our elders to maintain maximum independence with dignity in their home environments. Additional cuts in funding of programs will destroy the capacity of communities to continue providing these supportive and preventive services.

Sincerely yours,

Merrill Follansbee

Merrill Follansbee
Chairman, A4AA Advisory Council

MF/bb
cc: Congressman Robert Matsui
Mayor Phillip Isenberg, City of Sacramento
JoAnn Murphy, Special Assistant to the Speaker
Leonora Espindle, Catholic Social Service

STATEMENT OF EDWARD V. ROBERTS, DIRECTOR, DEPARTMENT OF REHABILITATION, STATE OF CALIFORNIA

There is an atmosphere of fear and depression taking hold of the disabled poor in California. This population is totally dependent on IHSS, SSI, Medi-Cal and a broad range of state, county and city services in order to live in the community, free of institutionalization. Even prior to the recent cutbacks, the ability of the disabled poor to survive on their own has been tenuous; but over the last six months, it has become evident that this population is unable to cope with the service cutbacks and the closing of neighborhood offices that is now taking place. The situation will become even more serious in January 1982 when this population is hit by two waves of IHSS cutbacks (Title XX).

The role played by federal cutbacks in this worsening situation is only beginning to come clear as federal funding decisions trickle down to the local level. There are service cuts appearing everywhere. Government programs of all kinds - emergency care, mental health, welfare - are beginning to show the effect of shrinking funds. The worst hit seem to be the private nonprofit organizations that in many cases provide critical life-sustaining services to the poor and disabled. These programs had developed over the last 5-10 years with a broad range of government funding, including CETA, Rehabilitation, Community Services Administration, Office of Economic Opportunity, Legal Aid, Alcohol and Drug Abuse and others, and now much of that funding has been reduced or totally eliminated. At the same time these private non-profit organizations are being called on for more services and emergency assistance by people who believe that they have nowhere else to go.

From our recent survey of community service programs for the disabled, we have learned that the segment of the population hardest hit are, indeed, the truly needy - people who are not skilled at advocating on their own behalf, who have no resources to fall back on and who are convinced that the situation is going to get worse. These people are fearful for their ability to survive.

IMPACT OF FEDERAL CUTBACKS IN VOCATIONAL REHABILITATION, DEVELOPMENTAL DISABILITIES AND SPECIAL EDUCATION

As Congress deliberated funding levels for FY 81 and 82, it resisted major cutbacks in the three federal programs specifically directed towards persons with disabilities: Vocational Rehabilitation, Developmental Disabilities and Special Education. That is not to say that these programs did not get cut at all, but that the cuts were limited to special programs (such as the SSA reinbursement to Vocational Rehabilitation for services to SSI and SSDI recipients) and the elimination of increases to keep pace with inflation. Despite Administration pressure, the core services of the three programs remained intact.

As a result, persons who were being served by these programs were not adversely affected. In many cases, the nature of the service was changed (reliance on less costly training programs, use of similar benefits, substitution of "adequate" services for more costly "ideal" services, etc.) but people have not been cut off. The impact, will be felt by those people who need services but who are not yet in the system.

When the Reagan Administration pressed for an allocation level of $614.5 M. for Vocational Rehabilitation in October 1981 (rather than the $854 M. in the continuing resolution), we determined that the lower amount would only enable us to maintain services to current clients, and only when a client completed his rehabilitation plan and went to work, could we add a new client. Fortunately, this has not happened and in California we are continuing to add new clients but, because of inflation and funding shortfalls, at a reduced level than last year.

Similar situations are occuring in Developmental Disabilities and Special Education; people are not being dropped from service rolls as far as we can tell, but we are all worrying about the people who are not even beginning to be served.

IMPACT OF FEDERAL CUTBACKS IN TITLE XX

The situation is far different in federally funded services for the poor, and particularly in Title XX which, in California, funds the In-Home Supportive Services Program (IHSS).

There are over 100,000 persons in California who depend on IHSS funded services to live on their own or in board and care facilities. One-third of these people are severely disabled, all of them are poor. Recent federal cutbacks in Title XX will mean a reduction of services to 99% of these people and many will lose up to 50% of benefits.

The 1980 cuts in Title XX (the 1980 Omnibus Reconciliation Bill) are only now filtering down to the people who depend on it for services. In mid-year the California Legislature passed S.633 which determined how the $28 M. cut would be implemented. This act was held up by the courts until recipients had adequate notice and opportunity to appeal. In January 1982, the recipients will actually begin to lose benefits.

The intent of S.633 is to reduce the costs of the IHSS program without necessitating institutionalization of its recipients. However, there is a danger that this will not be the case, since the cutbacks significantly reduce the amount of money available to recipients to pay for meal preparation, feeding and clean-up, domestic chores, and help with getting in and out of bed. The Western Law Center for the Handicapped, L.A., has already informed us of the adverse impact on the disabled. The Center has information on suicide attempts, people moving into board and care facilities, and board and care facilities threatened with closure because of reduced IHSS benefits. We will only begin to know the full impact of these cuts in the next few months as they are implemented by counties. In addition, some counties are finding that the reductions originally announced as a result of S.633 are not sufficient, and they are already mailing notices of a second wave of benefit reductions which will take effect shortly.

OTHER CUTBACKS

In addition to the actual dollar reductions for Title XX, Rehabilitation, and others, human service agencies are getting the clear message from state and federal governments that costs must be reduced. This is being accomplished by a significant reduction of staff and branch offices, and the tightening of eligibility and service determinations. The impact on the disabled is two-fold.

The disabled poor have great difficulty adapting to a reduction or delay in a service that is life-sustaining. Take medical transportation for an example.

In Los Angeles, as in other cities, this service has been available from a variety of sources. In an effort to cut costs and streamline programs, the agencies involved (Medi-Cal, IHSS, local hospital, specialized transportation service, etc.) have all cut corners and either changed eligibility requirements or reduced the level of service. Where does this leave the disabled person? We have been told, for example, that one agency will deliver you to the hospital but not back to your home (you are no longer "sick"), another will transport you but not your attendant (regardless of need) and a third no longer serves clients one day a week. I don't doubt that, on paper, medical service is still available in Los Angeles to all who need it and qualify for it, but I am certain of the increased difficulty and risk faced by the disabled individual who needs medical attention in a hurry.

The tightening of eligibility requirements is more insidious in its impact on the disabled. We are told that some Social Security offices are verbally discouraging people from applying for SSI benefits, and that Medi-Cal initially is disallowing some expenditures that were common in the past. In both these circumstances, the disabled person does still eventually get what he needs if he is eligible and if he expends the time and energy to aggressively advocate on his own behalf. The problem for the disabled person and the benefit for SSI and Medi-Cal is the delay in the expenditure of funds - a delay that could add up to several months and, in the case of SSI, a savings of approximately $300 a month per client (the difference between an SSI monthly benefit and general welfare assistance. This is a way of cutting costs by allowing people to fall through the cracks. It's a particularly onerous solution and one that will be more costly in the long run as the needy individual's circumstance becomes increasingly more critical.

OVERALL IMPACT ON COMMUNITY SERVICE PROGRAMS FOR THE DISABLED

In California, we are fortunate to have a network of independent living programs (ILP's) that provide referral and information and a wide range of services for people with disabilities living in the community. These programs are designed to prevent people from falling through the cracks in our human services system. For many severely disabled people, ILP's are the last resource prior to institutionalization. In the last six months, California's ILP's have sustained major cutbacks in funding and, at the same time, steadily increasing demands for services.

The following are examples of the problems identified by Independent Living Programs:

- Because of the great increase in demand, the ILP's, which normally respond the same day to a request for assistance, are now experiencing a week to two weeks delay in their ability to respond.
- One independent living center reports that calls for transportation assistance have risen from 300 to 800 a week. Among requests are people needing transportation for urgent and emergency medical care.
- There is now only one community service program providing job development assistance for the disabled in the Bay Area. Two East Bay programs specializing in job development services for deaf clients have closed, as have programs in San Francisco.

- Throughout the state, neighborhood health clinics are closing, and disabled are unable to identify where to go or how to get there.
- In Los Angeles, four legal service centers have closed since July. Southeast Los Angeles has no legal aid for the poor.
- Police departments have begun to complain to ILP's that they are getting an increased number of emergency requests from disabled people and they are inadequately prepared to respond.
- One independent living program has lost a total $430,000 in 1982 budget as a result of recent federal, state and local cutbacks. The loss in funds has meant a severe reduction in staff at a time when requests are increasing.
- Independent living programs are receiving so many requests for assistance from individuals who are having difficulty with SSI and IHSS, that the situation is reaching crisis proportions. The ILP's are convinced that almost all of these benefit disagreements would be resolved favorably on behalf of the client if appealed.
- Counties that had used revenue sharing funds to support community services for the disabled are beginning to discontinue funding. Alameda County, which had one of the largest disabled services budgets, has just informed community programs that the funding may be discontinued as of February 15.

CONCLUSION

Because of the need to relieve the current and projected federal budget deficit and the public concern of fraud and abuse in the human services system, we are seeing this system constrict quickly and tightly in a few months time. As this happens, the truly needy are being squeezed out and they are no place to go but the streets.

As one independent living program told us, "People are getting freaky. Especially those whose circumstance is marginal. These people are only beginning to take control of their own lives and, for one reason or another, the safety net is being pulled out from under them."

A recent example from the Bay Area: a disabled woman finally gets a handle on her benefits (SSI & IHSS) and moves from a board and care home into a hotel while she arranges for an apartment of her own. At the last minute, there is some question about her SSI, her check is delayed, and the hotel kicks her out. She attempts suicide. An independent living program responds to her emergency, helps her get back into a board and care home and begins to resolve her SSI problems. She is too discouraged to even consider another try at independence.

There is a fundamental difference between the information you will receive from a government agency that is adjusting to funding cutbacks and the people in the community who are feeling its effects. As a Director of a state agency for rehabilitation, I must report to you that our agency is managing to reduce its costs per client and that we are continuing to provide a high quality service.

I also know that other government agencies are making every effort to minimize the deleterious effects to the individual of necessary service cutbacks. But a human services system can look as though it works on paper and then not work in the community. That's what I fear is happening.

The truly needy in our society are the people who, for one reason or another, have great difficulty adapting to change. They have no resources other than the services and benefits that they have depended on. They have difficulty making the system work for them. They are not advocates and, in many cases, they don't believe in their "right" to survive. They simply have basic irrefutable needs.

The speed with which our system is attempting to deal with very massive cutbacks is a tremendous problem. Services and benefits are being cut from all direction. It's going to take months and even years to identify the gaps in our system and to figure out how to fill them. Mean while there are many truly needy people who will suffer.

STATEMENT OF MANUEL A. SIMAS, INDUSTRIAL RELATIONS MANAGER, LOUISIANA PACIFIC CORP., AND CHAIR OF THE EXECUTIVE COMMITTEE OF THE CALIFORNIA EMPLOYER COUNCIL TO EMPLOYMENT DEVELOPMENT DEPARTMENT

My name is Manuel A. Simas. I am the Industrial Relations Manager for Louisiana Pacific Corporation, Coastal Division, and am Chair of the Executive Committee of the California Employer Council to the Employment Development Department (CEC).

The California Employer Council represents nearly 1100 California businesses in retail, manufacturing, services, lumber, energy, agriculture and transportation. Our Federal Unemployment Tax Act revenues support the administration of the Unemployment Insurance program and the United States Employment Service now known as Job Service. It is essential that both are funded at much higher levels than provided in the third Continuing Resolution.

I appreciate this opportunity to inform you of the concerns the CEC has regarding the impact of the federal budget cuts on the Job Service's ability to serve California employers and job seekers.

The UI program provides temporary funds for those out of work through no fault of their own. The Job Service (JS) is the essential other side of the coin. Job Service directly assists the unemployed worker to go back to work. This reduces the length of time an Unemployment Insurance (UI) claimant draws UI benefits, thereby keeping the UI fund solvent.

The impact on Job Service in California of the budget cut as provided in the third Continuing Resolution is devastating. Job Service will no longer be able to provide an effective labor exchange. That labor exchange is paid for by our FUTA Tax. The California Job Service annually fills more than 445,000 job openings. This reduces the cost of the UI program, and makes tax payers out of tax users. That is what business wants!

The Job Service, begun under the authority of the Wagner-Feyser Act of 1933, has performed the labor exchange function and provided employment services to California and the Nation for almost 50 years. The Continuing Resolution appropriation combined Job Service and Unemployment Insurance Administrative grants into a single pot and reduced it 12 percent. The Department of Labor has recognized that the Unemployment Insurance program cannot absorb its proportionate share of cuts and continue to issue Unemployment Insurance checks in a timely manner. Therefore, nationwide the Job Service has to bear the brunt of the 12 percent cut. In California, the Job Service has to absorb the entire cut because the level of UI administrative funding provided to California is barely adequate to cover the current mandated operations in the Unemployment Insurance program. The critical problem for the

Job Service is that the cuts are immediate and retroactive. The only way to respond is to reduce staffing.

--Field office staff has been cut by 64 percent, that is 1,039 fewer persons to provide employment services.

--Total staff remaining in the field offices will be 836. This total includes the 220 Disabled Veterans Outreach Program (DVOP) staff that must be absorbed and 100 Local Veterans Employment Representatives (LVER). These staff members are mandated to serve veterans only.

--Fewer than 300 of the staff remaining in the field offices can be dedicated to providing employment and placement services to the non-veteran applicants; that is the unemployment insurance claimants, unemployed youth, minorities, economically disadvantaged persons, migrant and seasonal farm workers, and the handicapped and older workers. That is a ratio of only one Job Service worker for each 38,450 of this segment of the work force.

With over 1 million Californians unemployed and the number expected to climb even higher in the next several months, the program that has traditionally provided employment services must drastically reduce services which aid job seekers and employers to ameliorate the effects of a faltering economy.

The diversion of Job Service resources to support the Unemployment Insurance program and the concommitant field office staff reduction of 64 percent will force the elimination of employment services in many offices. The Employment Development Department has 200 local offices throughout the State, 159 of which provided both Job Services and Unemployment Insurance services.

--Forty two field offices and service points have already been closed in anticipation of reduced funding allocations.

--In urban areas, twenty more service points will be closed and consolidated.

--In rural areas, only Unemployment Insurance operations will continue.

--The remaining Job Banks in Orange County, San Diego, and San Jose, not closed in the earlier consolidation phase, will be closed.

--Distance to service points will increase for most applicants for employment services as our longstanding policy of locating offices geographically throughout the state must be changed.

The Job Service has provided services to employers including taking job orders, screening and referral of job applicants, providing occupational and labor market information, and technical assistance to meet special employer needs.

--Outreach to employers will be deemphasized.

--Screening of job applicants to meet employers needs will be minimal.

--Reduced resources will force concentration on only those job orders which are in demand occupations.

--The staff reduction will limit proportionately the number of job orders which can be processed, reducing the available job orders to applicants by as much as a quarter of a million. This will raise the UI fund costs and lengthen unemployment duration.

The Job Service has provided a range of services to applicants including individualized application review, direct referral to job openings, employment counseling, testing, job development, job search workshops, and referral to other service and training agencies, if appropriate.

--Direct referral will be substantially reduced and in some areas eliminated.

--In FY 81, 33,800 individuals received employment and vocational counseling. Counseling will be eliminated in some offices and reduced by 60 percen in others.

--In FY 81, almost 18,000 individuals were tested for skills and aptitude and to aid in screening for employers. Testing as well as job development efforts on behalf of applicants will be eliminated.

--The business community should not have to pay twice for a service! We resent using our profits to pay for screening and referral from private fee agencies when our FUTA Tax has already paid for the service!

The Job Service offers a range of services to all categories of job seekers and takes and fills job orders for all types of occupations. The Job Service's ability to aid the less fortunate job seeker as well as the employer is well documented. They serve a substantial number of young people, minorities and disadvantaged. Thirty eight percent of individuals placed on jobs were economically disadvantaged, 49 percent were minorities, and 38 percent were youth under age 22. Loss of employment services to these groups will place a larger burden on other social service agencies since these people are less likely to have the resources to secure employment services from the private sector. The Job Service registered or renewed applications for work for well over a million job seekers in fiscal year 1981. Staffing reductions may mean that up to a half a million job seekers will find the public employment service unable to meet their needs. As services to employers are reduced, employers will decrease the number of orders they place with the Job Service further reducing available openings to job seekers. This will directly affect the ability of the UI program to offer work to UI benefit claimants.

The impact of these budget cuts on welfare recipient programs handled by the State Employment Development Department is alarming.

The purpose of the WIN program is to assist persons receiving Aid to Families with Dependent Children (AFDC) to find permanent unsubsidized employment and ease economic dependence on welfare. Persons who register to receive AFDC are referred to the WIN program, the primary employment service deliverer for welfare recipients. The budget reduction for the WIN program will force EDD to cut WIN staff by 377 positions, a cut of 47 percent. In FY 81 over 45,000 WIN registrants found jobs expected to last 30 days or more. This staff cut will reduce the numbers of WIN program participants entering employment by almost 20,000 in fiscal year 1982.

Welfare savings, that is welfare grants not paid because the welfare recipient has gone to work, known as Welfare Grant Reduction (WGR), is a major factor in WIN performance. The increase in WGR in California indicates a high return on investment in the WIN program. That's good business!

--In 1980-81 WGR increased 88 percent to $176.5 million from the 1979-80 level of $93 million.

--This savings returned $3.71 to the State in lower welfare spending for every dollar spent in WIN.

--Twenty thousand fewer persons entering employment as a result of the 46 percent WIN staff cut will eliminate possible welfare savings of almost $78 million.

--The cut in WIN funding of $13.7 million will have the effect of causing $78 million in welfare grants to be paid which may have been avoided. That's very counter-productive!

Staff cuts will require closing WIN offices and reducing the number of WIN counties, now 32 in California.

--AFDC registrants in non-WIN counties will not receive WIN services which aid them in finding employment; thus prolonging dependence on welfare.

--AFDC registrants, except those exempted, must be registered with WIN to be eligible to receive the welfare grant. A WIN office cannot reduce workload by reducing registrations. With a 47 percent cut in staff, employment services which can be provided in addition to registration will be minimal.

--Special services which aid WIN registrants in finding employment such as participation in job search workshops, work experience, institutional training or placement in a public service job will be reduced or eliminated, leaving WIN registrants largely unassisted in their job search efforts and without special services which enhance employability.

On behalf of the 1100 California Employers represented by the CEC, I sincerely wish to thank the Committee for the priviledge of giving this testimony.

STATEMENT OF BISHOP FRANCIS A. QUINN ON BEHALF OF THE CALIFORNIA CATHOLIC CONFERENCE AND ROMAN CATHOLIC DIOCESE OF SACRAMENTO

I am Bishop Francis Quinn of the Roman Catholic Diocese of Sacramento serving 20 counties in Northern California, with a total population of approximately 2 million people of whom approximately 300,000 are Roman Catholics. I also speak for the California Catholic Conference which represents the 12 dioceses of this State in which reside 5 million Catholics. I am very grateful for the opportunity to submit testimony to you on a matter of urgent concern to me and many Americans: the federal cutbacks affecting human services.

There is a growing movement in our government today to withdraw from serving the disadvantaged and the needy, both at home and throughout the world.

Government officials are not withdrawing social programs to penalize the poor. The Federal Administration contends that its supply side economic policies will bolster the American economy and eventually help the truly needy more than ineffective government social programs.

Moreover, federal and state governments are responding to a mood of many American citizens to cut back on social benefits because of allegedly rampant abuses of government assistance to the poor.

It is not for the Church to make a judgment on technical economic policies. It is to be noted, however, that serious economists differ on the effects which current government policies will have on the poor and on the nation at large.

The Church as teacher and prophet is obliged by the very name it bears to make a judgment on the moral implications of civil legislation affecting the disadvantaged.

The question we must ask is: Is there a spirit abroad in the United States to withdraw from serving the less fortunate in our society? Is there an over-reaction in closing down all social programs in order to curb those people who abuse the programs? Perhaps there is an even more disturbing question: As there is now less to go around, are the strong accumulating as much as they can, leaving the weak empty handed and without a voice? There is a more radical question still: What principles guide our national policies? Do they take into account moral values?

Are we as a nation becoming over-judgmental? Are we growing protective and fearful? The question is heard again throughout the land: "Am I my brother's keeper?"

Granted that we must be realists and establish policies intelligently which will work for the good of all the people, we may be departing from the American tradition of generosity and compassion if nationally we are echoing such statements as "survival of the fittest", "the unemployed could get work if they wanted to", "the want-ad sections are full of job opportunities", "let the poor and the poor nations help themselves". Such statements may be expedient slogans currently. As pragmatic individuals, we can afford to voice them; as members of the human family, we simply can not.

There are indeed abuses and these should be corrected whenever possible. But most of the 25.2 million people in America living below the poverty line ($7,450 for a family of four-1980) are not impoverished through their own volition. Most of these are disadvantaged because of unequal opportunities and uncontrollable circumstances. We are one human family and it is incumbent upon us that we give assistance to brothers and sisters who are in need.

Social services and assistance to the disadvantaged through various professional and volunteer groups and agencies year in and year out are testimony to the concern of the people in Northern California. But there is much more to be done. We see in our cities and towns, growing at an alarming rate, the need for programs and facilities to feed the hungry and to provide a bed for those who have no place to sleep. We see the grave need for temporary emergency housing, particularly for women with small children. We see the inadequacy of facilities for men and women caught in the grip of alcoholism. We see elderly people without decent housing and medical care, teenagers without opportunities for work, refugees and undocumented aliens who need our assistance.

The current Federal cutbacks could not happen at a worse time. For the State of California, the impact of Proposition 13 is already a significant reduction in State assistance to local governments. Further changes in funding will be felt quickly and intensely.

In addition to the effects of Proposition 13, the timing of Federal cuts is during a period of reduced economy. Throughout Northern California, especially in the mountain lumber communities, the economic slowdown is resulting in large-scale unemployment. Agency programs and churches are already facing greater demands for emergency relief, food closets, family counseling, etc. Strain on resources and volunteer help is already being felt.

Child Care Centers are now more costly to working parent(s) as fees have been raised to make up the 20-40% decrease in the Federal/State reimbursement for lunches. Seventy percent of these pre-school children are from low and middle income families.

The program for the poorest elderly in Sacramento has been cut back from a seven day to six day program with much less staff thus eliminating advocacy except for extreme cases. Outreach to the shut-ins has ceased. This year the program has already been instructed to submit a curtailed budget to the City.

Many services such as Neighborhood Outreach, Youth Programs, Senior Centers in low income neighborhoods are supported by County and City funding. With the effects of Proposition 13 and Federal cutbacks, these services may be drastically diminished or eliminated for those of low income.

Youth Residential Treatment Centers are being affected by the Federal cutbacks in nutrition. The cutback effect on County of Sacramento could mean no increases or decrease in rates for residential care during this inflationary period. Medicaid cutback will also effect this program.

The full impact of the Federal cutbacks is not yet known.

The loss of jobs due to cutbacks plus inflation diminishes the voluntary dollar thus affecting private resources. At a time when there is more unemployment, inflation, more need for services, less services available, less voluntary dollar, more is expected of the voluntary groups. It is unrealistic to assume the voluntary sector can pick up all programs and cuts,-or that it is disposed to do so. It is precisely because individuals do not help each other sufficiently that government must organize and provide for the needs of those who cannot help themselves.

The Federal Government should not be one grand charitable agency. Individuals and private organizations cannot escape their responsibilities to help shelter the homeless, clothe the naked, comfort the afflicted. But the needs are so vast and the concentration of funds so situated that government must play a crucial humanitarian role in the welfare of its people, else miseries will be compounded, here and elsewhere.

I am grateful for the opportunity to submit this testimony. I believe that we must seriously and realistically evaluate alternative ways of addressing human problems and human needs and the allocation of funding.

Thank you.

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January 8, 1982
Corrected

Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
1102 Longworth House Office Building
Washington, D. C. 20515

Attention: John J. Salmon, Chief Counsel

Dear Congressman Rostenkowski:

Attached we are sending you California illustrations of the impact the new federal AFDC statute is having. The descriptions all illustrate how the new law is acting as a disincentive to parents who want to work in order to minimize their dependence on AFDC and to get off as soon as possible. In our state every month tens of thousands of families go off AFDC. These disincentives can have only an adverse impact on those cases.

Specifically, our AFDC examples deal with the following issues:

1. Ineligibility for any aid for parents with a gross income of 150% of the need.
2. The deletion of work incentives after four months (the elimination of the "$30 and 1/3" rule).
3. The elimination of supplemental payments to a family after its income drops drastically - e.g., a low-paying, temporary job is terminated. This is a common occurrence in agricultural areas.

We are also enclosing examples of essential In-Home Supportive Services which are being jeopardized by the Title XX cuts. Such cuts are ironical at a time of continuing publicity about the need to provide less expensive services in the home, as against the costs of services in nursing homes and medical units. Adults with functional disabilities should be encouraged to remain as independent as possible.

We ask you to include this material in the printed record of your committee hearing in Sacramento on January 18, 1982.

Please let us know if there is any further information we may be able to supply.

Sincerely,

Emma E. Gunterman

EMMA E. GUNTERMAN
Advocate

EEG/rh
enclosures

P.S.: The full impact of the AFDC cuts has not yet been felt in California because of the tardy implementation. The impact on persons who are able to get temporary jobs and will be penalized subsequently is just beginning to be felt.

DELETION OF WORK INCENTIVE

K: LS

A woman with two children, ages 9 and 10 years, works as a domestic servant. An AFDC work incentive grant supplements her low take-home pay. The two sources of income enable her to meet her rent, utility and work-related expenses and still to feed her family. Under the new law she will lose the work incentive grant at the end of four months. She will not be able to support her family on her pay from the job and will have to go onto AFDC entirely.

Financial breakdown:

Fixed expenses		
Rent	$325	
Utilities	118	$443
Work expenses		
Car payment	$100	
Car insurance	30	
Gas	30	
Child care	20	$180
Total expenses		$623
Income		
Take-home pay	$580	
Incentive grant	196 for three months only	
Total income		$776
Left to feed herself and her children		$153 for three months only

Without the $196 incentive supplement, her take-home pay from her job will not be enough to meet her expenses. She will have no choice but to quit her job and go entirely on welfare. On AFDC she will receive a $506 monthly grant plus $93 in food stamps, for a total income of $599. Since she will not have work expenses, the $599 AFDC payment will give her an income of $156 after paying her fixed expenses, rent and utilities.

Corrected

DELETION OF WORK INCENTIVE

Santa Clara, L.C.

A working mother with four children to support receives an AFDC work incentive subsidy to enable her to make ends meet. After four months she no longer will receive this subsidy. She will not be able to continue to pay work-related expenses, in addition to fixed family expenses, and still have enough money to feed her children.

Financial breakdown:

Fixed expenses		
Rent	$420	
Utilities	95	$515
Work-related expenses		
Gas	$ 80	
Car insurance	32	$112
Total expenses		$627
Income		
Take-home pay	$590	
Incentive (AFDC)	240 for three months only	
Total Income		$830
Left over for food, etc.		$203 for three months only

It is clear that the AFDC incentive supplement provides the margin with which this mother is able to buy groceries, clothes, school supplies and other necessities for her four children. When the incentive supplement ends, she will have to go on full welfare. The AFDC grant will be $686 plus food stamps. Since she no longer will have work-related expenses, this grant will give her a margin of $171 above rent and utility costs, for all other needs of her family.

DELETION OF WORK INCENTIVE

Corrected

Santa Clara (RR)

Mother with one school-age child has a job at minimum wage level. At present she still receives an AFDC subsidy for some* of her work expenses and for four months she receives an incentive-to-work payment. In the fifth month her subsidy will be reduced substantially. She will still receive a small amount because her work-related expenses are quite high.

As a result, she will have only $18 per month left after she pays her rent, utilities and work-related expenses. To feed her child and herself she will have to quit her job and go on welfare.

Financial breakdown:

Family's fixed expenses			
Rent	$150		
Utilities	10		$160
Work-related expenses			
Car payment	$ 50		
Insurance	34		
Gas	100		
Child care	180		$364
Total fixed expenses when working			$524
Take-home pay	$473 ($594 gross)		
Welfare subsidy (after 3 months)	69		
Total income		$542	
Less above expenses		$524	
This leaves her			$ 18 per month

If the incentive payment were not taken away after three months, she would still receive a $202 subsidy. In that case, she could make it. Without that incentive subsidy, she will have to go back on welfare in order to feed her child. Then she will receive the full grant, $408, plus $60 in food stamps, a total of $468.

---

*Under the new law, the maximum payment for work-related expenses apart from child care is $75. For child care the maximum is $160. Her total work expenses are higher.

WORK DISINCENTIVE FROM "150% RULE"

Oakland, B.C.

A mother of two children, ages 10 months and 10 years, has been working for Alameda County. Because her gross income is more than 150% of need level for a 3-person family, her AFDC benefit is being terminated. This woman will thus be unable to afford to continue working, as her take-home pay isn't sufficient to cover her family's expenses and to feed her family adequately.

Financial breakdown:

Family's fixed expenses		
Rent	$375	
Utilities	80	
	$455	
Work expenses		
Bus	$ 50	
Child care	300	
	$350	
Total fixed expenses when working		$805
Her take-home pay	$897	
(less above expenses	805	
Left for food and other expenses	$ 92 for this family of 3	

On welfare alone she will get $506 plus $91 food stamps = $597

Fixed expenses	+ 455
This will leave her, for this family of 3	$142

WORK DISINCENTIVE FROM 150% RULE

Sacramento, B.S.

A secretary with one child will be unable to continue in her job because of the "150% above need" rule. She will lose both her AFDC and her Medi-Cal coverage. She is in particular need of the medical coverage, as she is suffering from a liver condition and her child is getting dental work made necessary by an accident. In addition, when she no longer is on AFDC, she will lose her free child care. This will be her financial picture without AFDC:

Expenses

Rent	$235	
Utilities	25	
Car insurance	25	
Gasoline	105	
Regular medication	25	(now paid by Medi-Cal)
Child care	70	
	$485	
Take-home pay	$641	
Left for everything else	$156	

Out of this $156 a month she will have to pay, in addition to food, clothing, and other usual costs, the "share of cost" for herself and her child under the State's Medically Needy program. She probably will have to give up her job and go onto AFDC entirely.

HARDSHIP FROM 150% OF NEED RULE

Los Angeles, A.

A secretary, mother of two (12 and 15 years old), will not be able to keep working because, if she does, under the new law she will lose her grant. As a result of the "150% rule", she will be cut off from any AFDC subsidy. Her fixed expenses and work-related expenses will leave her only $1 (sic) per month to feed her family. She also will lose her Medi-Cal (Medicaid) coverage and, under the state's Medically Needy program, will have to pay a share of cost. She has been seeing a chiropractor regularly for seven vertebrae which are out of place. She cannot afford medical insurance.

Financial breakdown:

Fixed expenses		
Rent	$405	
Utilities	30	$435
Work expenses		
Child care	$ 90	
Car payment	135	
Car insurance	39	
Gas	60	$324
Total expenses		$759
Net take-home pay		$760
Left for food, etc.		$ 1

Clearly, $1 is not enough to feed her family for a month. She will have to go back onto full welfare. Then she will receive $506 plus $93 in food stamps, for a total income of $599. After deducting the $435 in fixed expenses, she still will have $164 for food and other family costs, and will be covered under Medi-Cal. Before the 150% cut-off went into effect, she was receiving only $332 (and no food stamps) as a supplement to her salary. The supplement enabled her to keep working with the prospect ultimately of getting off AFDC entirely.

HARDSHIP FROM 150% OF NEED RULE

Santa Clara, S.B.

A woman with a pre-school child will have to quit her job. Because of the "over 150% of need" elimination of AFDC subsidy, she will not be able to continue her work.

Financial breakdown:

Fixed expenses			
Rent	$250		
Utilities	12		
		$262	
Work expenses			
Car payment	$ 75		
Gasoline	100		
Child care	200		
		$375	
Total expenses when working		$637	
Take-home pay		$590	
Left for food, clothing, etc. after AFDC supplement ends			-$47

Without the work incentive payment, she will be unable to make ends meet and will have to go entirely on AFDC. On AFDC she will not have work-related expenses and will receive a monthly grant of $408, plus $60 in food stamps, for a total income of $468.

DISINCENTIVE FOR TEMPORARY WORK

Marysville (rural California) N.P.

Mother of one worked in summer job during July, August and parts of September. In November, when the new law was implemented, she suffered a cut in her AFDC check. Her check was computed on what she had earned two months earlier, in September, when she was still working. In September she received two pay checks which totalled $449, though one of them was for work in August. Under the new law she could not be given a supplemental payment to make up for the fact that she was not working any more.

Financial Breakdown:

Fixed expenses	
Rent	$210
Utilities	58
	$268
November benefits	
Grant	$192
Food stamps	128
	$320

Left to feed herself and a child for a month on $320 minus $268, or $52.

Her regular welfare check would have been $408, which, with $66 in food stamps, would have given her a total income for the month of $474. In the future she will not dare to take a temporary job. She will know that, as soon as the job ends, she will not be able to feed her family.

Below are In-Home Supportive Services cases from Fresno, Fall 1981:

This client (#1) is a woman in her mid-40's disabled by Spinal-Cord injury and requiring all forms of personal care as well as assistance in housekeeping.

As eligibility criteria tightens up, she is constantly threatened with the cessation of her In-Home Supportive Services by local authorities.

If this should come to pass, she, as will many others, will be driven to a convalescent hospital.

This client (#2) is a woman in her late 50's disabled by Amyotropic Lateral Sclerosis, a mobility-impairing disorder. She currently has a 24-hour-a-day live-in attendant who is paid through In-Home Supportive Services. This attendant allows her to live in an accessible apartment, rather than in a convalescent home.

As the total amount paid to IHSS clients decreases, it becomes harder and harder to find a reliable provider who will work for such meager pay.

When this occurs, as it seems sure to unless the current trend is reversed, she will have to go to a convalescent hospital, surrendering her independence.

This client (#3) is a severely disabled husband and father of two young children whose attendant/therapist is currently being paid by a combination of Social Security Disability Insurance and the couple's own rapidly dwindling funds.

His provider assists in range-of-motion exercises, bowel and bladder care, general aid around the house, as well as assisting him to slowly but - at this time - steadily improve.

As their funds diminish, this couple may have to depend upon In-Home Supportive Services to fund his attendant-therapist. If the new regulations make this impossible, what hope he now has will be crushed.

This client (#4) is a disabled young woman effected by Cerebral Palsy whose 4 hour-per-month allotment from In-Home Supportive Services allows her to live independently in an accessible appartment, allowing her time to work in a sheltered workshop.

Her provider assists her in housekeeping alone and therefore might be deemed unnecessary under the new regulations.

Were that to happen, she would either have to go to a convalescent hospital or move back in with her parents. In either case, what self-respect she has acquired, since recently moving out would be lost.

These clients (#5) are a disabled married couple, both of whom are confinedd to wheelchairs, whose 12 hour-per-week allotment from In-Home Supportive Services allows them to live independently together in an accessible apartment.

Their provider assists them in housekeeping, meal preparation, transportation, and shopping and therefore might be deemed unnecessary under the new regulations.

Were that to happen, they would be forced to live in a convalescent hospital, no longer as a married couple, but as individual patients with no privacy, stripped of the dignity which was so slowly acquired - they were not married until after they achieved independence.

CRLA FOUNDATION
1900 K St., Suite 200
Sacramento, CA 95814
January 8, 1982

These are examples of actual In-Home-Supportive-Services cases in a small northern county.

Widow severely crippled from arthritis is able to remain in her own home rather than going to a convalescent Hospital.

Ninety-five year old man with some ambulation problems is able to remain in his own home with chore services rather than going to a convalescent hospital.

Woman with terminal cancer and severe diabetes is able to remain in her own home rather than going to a convalescent hospital.

Blind 82 year old widower is able to remain in his own home with chore services rather than going to a convalescent hospital.

Diabetic amputee, widow, able to remain in her own home rather than going to a convalescent hospital.

Eighty-eight year old divorced man with severe heart failure, able to remain in his own home with chore services rather than going to a boarding home.

Divorced man with severe emphysema is able to remain in his own home with homemaker services, rather than going to a boarding home.

Mentally disturbed youth getting care in own home preventing Boarding Home placement

Arthritic woman living in trailer helped by Chore Service to remain there, rather than to Boarding Home.

Mongoloid - care for at home through Chore Service, alleviating the need for more expensive institutionalization

Severely retarded man cared for at home

Cerebral palsy victim cared for at home thus preventing institutionalization - client earns some of own money.

Client with severe heart trouble - no money for Chore Service - could use some on a regular basis.

Client with many ailments in need of Chore Services have no funds to provide.

Wife has severe emphysema, is bedridden. Husband is incapacitated by chronic depression. Chore service person has provided stability and encouragement which has taken a lot of the burden off the husband and wife. She has done this in addition to chore service duties. Wife would otherwise be in a convalescent hospital and he in a boarding home.

Widow with an extremely bad heart condition, virtually bedridden, is able to stay in her own home, rather than a convalescent hospital.

Divorced man with a history of strokes, some partial paralysis; is able to stay in his own home rather than go to a boarding home.

Divorced woman with severe arthritis is able to stay in her own home, rather than go to a boarding home.

Widow with multiple health problems utilizes Homemaker Services and Protective Payment Services to remain in her own home, rather than going to a boarding home.

Widow has recuperated from needing live-in care to utilizing chore services part-time. Was able to move from a convalescent hospital to her own home more quickly.

Very senile, but ambulatory man and his almost non-ambulatory, non-senile wife are able to stay at home with chore services rather then going to a convalescent hospital.

Eighty year old widow with multiple health problems able to manage well in her own home, rather than go to a boarding home.

92

Nine-two year old widow with history of strokes able to remain in her own home with chore services.

Seventy-one year old widow with severe health problems able to remain in her own home rather than going to a convalescent hospital.

Seventy-nine year old man who had knee surgery and a leg cast for 3 months. The cast caused him to be non-ambulatory as his other leg is quite weak. His wife has severe arthritis. Chore services kept him in his own home and provided the personal care he needed so that he did not have to go to a convalescent hospital.

CRLA FOUNDATION
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Sacramento, CA 95814
January 8, 1982

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ASSOCIATION
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SACRAMENTO, CA 95814
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January 13, 1982

COMMITTEE ON
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WAYS AND MEANS

The Honorable Dan Rostenkowski
Chairman, Committee on Ways
and Means
U.S. House of Representatives
1102 Longworth House Office
Building
Washington, D.C. 20515

SUBJECT: Statement submitted for January 18, 1982 Sacramento field hearing on the impact of the Administration's budget cuts.

Dear Mr. Rostenkowski:

The current federal budget reflects the most substantial change in federal state-local relations of recent decades.

The California Taxpayers' Association supports the Reagan Administration's efforts to control federal spending and to reduce the size of government. State and local governments have been heavily impacted in the past decade by federal spending policies and practices, particularly in the health and welfare area. Today, approximately one-third of the state's $22 billion General Fund budget goes for health and welfare, while California's county governments spend almost two-thirds of their budgets (reflecting the pass-through of federal and state dollars) on health and welfare.

Factors that have contributed to increased state and local health and welfare spending include federal matching and maintenance of effort requirements and federal programs with open-ended allocations. As a result of such policies, state and local governments had no guidelines that provided any incentive to contain costs or to limit the growth of programs.

A prime example of open-ended budgeting is the federal-state Medicaid program, known as Medi-Cal in California. In California's case, until this year the federal government provided a 50% match for covered services provided to eligible aged, disabled and AFDC recipients. In 1975-76, federal Medi-Cal dollars to California totalled almost $1 billion for a caseload of 2.45 million persons. In the current 1981-82 fiscal year, federal dollars are estimated to be $2.2 billion for a caseload of 2.85 million persons. That is over a 100% increase in six years, while the average monthly caseload went up 15%. State dollar contributions to Medi-Cal grew even more rapidly during that same time period because of California's state only programs tacked onto Medi-Cal.

We do not point an accusatory finger solely at the federal government. California has historically provided health and welfare benefits and services at levels exceeding that offered by most other states and at levels above that required by the federal government. An example is the federal-state SSI/SSP cash grant programs for the aged and disabled. California supplements with state dollars the checks of its recipients by more than the total combined dollars provided by the other 26 states providing supplementation.

Our point is that California's penchant for such service levels has been aided and, in fact, encouraged by federal policies that did not consider providing services in an efficient and economical manner.

We understand that further changes and reductions in health and welfare are being considered for future budgets. We believe that additional changes can and should be made. We would offer the following suggestions as to areas for further attention.

Health care -- particularly Medicaid and Medicare. Hospitals across the nation and also in California have become extremely reliant on Medicaid and Medicare dollars as a source of patients and revenues. These two programs did not even exist 20 years ago. California data for 1979-80 shows that Medicare accounted for 35% of California hospitals' revenue and Medicaid over 18%. Thus, over half of the revenue dollars come from programs directed in large part by the federal government.

Clearly, rising health care costs are a national problem and must be constrained. We urge that further Medicaid and Medicare changes be made in consideration of ways to restrain the overall cost of health care. Piecemeal changes that result in a commensurate shift to states in the Medicaid program or to other public and private providers, particularly hospitals, only exacerbate the problem.

In July 1981, a report was issued by the Health Care Financing Administration identifying federal regulations, statutes and barriers to efficient Medicaid operations. PL 97-35 contains some initial desirable changes in that direction. We believe that states need much more flexibility to become prudent buyers and providers of health care for low income persons.

In the welfare area, California has almost completed enactment of statutory change necessary to conform to new federal requirements. There are a number of areas where changes are needed to make programs more efficient in delivering the services specified.

Food stamps. Substantial administrative savings to federal, state and local governments could occur if the value of food stamps for AFDC recipients was "cashed-out" and added to their welfare checks instead of provided separately. Administrative costs would thus only be spent on providing stamps for eligible persons not receiving a welfare check.

In September 1981, the Legislature passed Assembly Joint Resolution 37 (AJR 37). The resolution memorializes the President and Congress to enact legislation to provide that pilot project authority be granted states to study the effects of public assistance cash-out.

Disability under the SSI/SSP and Social Security programs. Under legislation enacted by the previous administration, review of persons' continued eligibility for disability benefits is supposed to occur at least every three years. The three-year requirement is an improvement over past practice of longer periods between review. Recent national studies and sampling of California's SSI/SSP disability caseload suggests that an even more frequent review basis may be warranted.

We urge that consideration be given to additional staffing, perhaps on a pilot basis in a state such as California where data suggests that more frequent review would result in a decrease in disability rolls. A decrease would produce a savings of both federal and state dollars under SSI/SSP and the Medi-Cal programs.

Sincerely,

Kirk West
Executive Vice President

KW:lms

cc: John J. Salmon, Chief Counsel, Committee on Ways and Means

STATEMENT OF ETTA MILLER, ADMINISTRATIVE ASSISTANT, YMCA CHILDCARE RESOURCE SERVICE

INTRODUCTION

This data was collected by The YMCA Childcare Resource Service, a state funded program that helps parents with their child care needs. The program has two contracts with the State Department of Education, Office of Child Development. The first is Resource and Referral. This program helps parents find child care. CRS has a listing of all licensed child care facilities in San Diego County. The second is a Vendor Payment Program that pays for child care for parents who qualify according to the state guidelines. The total agency receives will over 1000 calls per month from parents looking for assistance with their child care needs.

IMPACT

The results of the AFDC cuts to the families of San Diego County are just beginning to surface. Many families have received notice that their grants will be decreased or terminated altogether, and these parents are in a state of shock.

A typical parent that has called The YMCA Childcare Resource Service is a single mother with two children, who is working and is looking for help. Up until November, 1981, she had been receiving a small supplemental grant from AFDC. These parents that have lost, or are in the process of losing their aid are desperate. Some of their comments include:

> " With my salary I can pay for rent, gasoline to get to work, and part of my child care. I had been using my AFDC grant for food and other necessities - forget the luxuries."

> " I can't afford to give up my medical assistance that was cut off with my grant. My children need to go to the doctor and I can't afford to take them."
>
> " Maybe I'll just quit my job. I will receive almost the same from AFDC as I make from working full time."

Our agency receives more than 1000 calls per month from parents seeking child care assistance. The increase in calls from parents being cut from AFDC is on the rise. The YMCA Childcare Resource Service can help with child care referrals and with referrals to other social service agencies. Where we cannot help is with our own Vendor Payment Program. The program serves 203 families in San Diego County. These families are placed on the program according to the state guidelines, which are:

1. Children in protective service
2. AFCD working
3. Income eligible
4. In training

The program is full and there is a waiting list of over 950 names. Some parents call weekly to see what is happening and what is their status on the waiting list. Since May of 1981, our answer has been the same - the program is full. We do refer parents to subsidized centers, but most of them have waiting lists also. The major question they ask is, "How is a single parent with two children who earns minimum wage able to afford child care?"

Of the parents who are already on the Vendor Payment program, most have also received partial or total cuts from AFDC. For the parents completely cut, they have not only lost their AFDC, food stamps and medical, in many cases they have to start paying a parent fee for their child care. So, their income has decreased while their expenses have increased.

To stress the plight of these parents, an interview was conducted with the office manager at The YMCA Childcare Resource Service. She handles the majority of the phone calls from these desperate parents, who are seeking financial assistance with their child care expenses.

CRS " How many calls does CRS receive monthly from parents seeking assistance with child care payments, and how many of these are working?"

O.M. " There are 100 calls a month and 85% of the parents who call are working."

CRS " How many are single parents?"

O.M. " 90% are single parents."

CRS " What is the average number of children?"

O.M. " Two."

CRS " What is their average gross monthly income?"

O.M. " Between $750.00 and $800.00 per month."

CRS " How many were or are on AFDC?"

O.M. " There are between 35-40% on AFDC. The calls are beginning to increase from working parents who are being cut."

CRS " What do the parents tell you about how these cuts have effected their lives?"

O.M. " Most tell me they do not know how long they can keep on working. They cannot meet their financial responsibilities. Many also tell me that they may have to leave to leave their children alone because they cannot afford child care. Above all, they do not understand why they have been cut."

CRS " What do these parents tell you about their goals for the future?"

O.M. " Most of all they tell me their goal is to become self sufficient, but they do not see much chance of it."

CONCLUSSION

A quote from Cher Kinard, a single working parent who was just cut completely from AFDC. She speaks for all parents in this desperate situation.

> " Surely there is something that can be done about this. It seems in taking a step forward, I am being shoved backward. I love my children and I want to be with them to see them grow and enjoy life. I will not stop working and ruin my chances for advancement. I will continue to struggle and fight for what is right. All I ask is for a little assistance. Isn't there someone who can help me? Please help my children, they need it more than I do."

Children's Council of San Francisco

25 January 1982

COMMITTEE ON
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WAYS AND MEANS

Honorable Dan Rostenkowski, Chairman
House Committee on Ways and Means
Room 1100
Longworth House Office Building
Washington, D.C. 20515

Dear Honorable Rostenkowski:

This written testimony is being submitted on behalf of the Children's Council/Childcare Switchboard of San Francisco, California, in response to the U.S. House of Representatives' Ways and Means Committee's Study of the impact of the Administration's budget cuts. The Children's Council/Childcare Switchboard is a private non-profit organization providing free childcare information and referral services to parents and providers in San Francisco.

The Childcare Switchboard has been providing free services to the San Francisco Community since 1973. Some of these information and referral services include helping to find childcare for working parents; providing information about other useful resources, i.e., legal services, classes, free events and activities, etc.; offering a support system to single parents; and sharing toys and materials through a Toy Center. The Childcare Switchboard is currently funded by a variety of sources: The United Way, The Ford Foundation; The Rosenberg Foundation; The Zellerbach Family Fund, and the State Department of Education (and previously through CETA funds).

Based on its position in the childcare community, The Childcare Switchboard knows how the Administration's budget cuts have made quality childcare services for low-income families even more difficult to obtain. By systematically decreasing and/or eliminating a variety of federal programs, basic funds for childcare services are subsequently decreased and/or eliminated. These cuts have a distinct effect on the availability of federally subsidized care.

Many low-income parents who have depended on federal subsidies to afford child care and maintain their employment face a critical shortage of child care and have been forced to quit their jobs and go on the welfare rolls. The level of quality childcare has also diminished. In sum, the Administration's budget cuts force low-income single parents to lose their employment and accept welfare support, decrease the availability of services, and expose children to unsafe conditions. Governor Brown testified before your committee in Sacramento that thus far 122,000 families have been removed from the welfare because they are no longer eligible and benefit cuts have been felt by another 330,000.

The population of children under five years of age in San Francisco will increase by nearly 25% from 32,000 in 1975 to a projected 39,700 by 1985. Today, nearly one in five families with children is maintained by a single parent. By 1990, one in two children under six will have a mother who is employed in the work force. During 1980, the Childcare Switchboard received 6200 calls for childcare referrals for 6900 children. Half of these children were under two years of age

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Childcare Switchboard (415) 282-7858
Parent Support Services (415) 821-7058
Technical Assistance (415) 826-1130

and almost one in 10 were elementary school age (6-12 years old). There is an ever-increasing need for after-school care and full day care services as the changing economic conditions and rising inflation rates push more parents into the labor force.

There are currently 12,500 spaces in licensed childcare homes and centers in San Francisco. Over half of the center-based spaces and 3% of the family day care spaces are subsidized by state or federal dollars for low-income working families; all but a few have long waiting lists. Follow-up surveys conducted by the Childcare Switchboard during 1980 document that one out of three parents who look for regular childcare are unable to locate a program or caregiver. Lack of openings, high childcare costs, and inadequate services in a particular location are problems most often encountered by these parents.

The federal government has no single child care program, but rather several that support child care; these include: Title XX, the Head Start program, the Department of Agriculture's Child Care Food Program (CCFP), and the AFDC Work Expense Allowance for Child Care. The subsequent reduction in each of these areas has a cumulative effect on the availability of day care for low and moderate income working families. The elimination of CETA has drastically hurt childcare services. As mentioned previously, the Childcare Switchboard once received monies from CETA, and individuals financed under the CETA program used to staff programs and centers. CETA was an important support to the child care community.

By consolidating Title XX into state social services' block grants and then reducing the budget authority, thousands of children will lose their day care slots. Additionally, eliminating the need for states to match federal grants, will cause more children to lose their childcare services. Of paramount importance is the competition that will take place for existing funds. The day care lobby is not as powerful as some of the others served under the state block grant. Title XX budget cuts will cause centers to close and lower eligibility requirements for subsidies, thus forcing more parents to leave their jobs and join the welfare rolls.

The Department of Agriculture's Child Care Food Program has been an important source of funds to childcare programs. Under the Administration's plans, childcare providers will be required to serve the same quality and quantity of food but with no reimbursements from the federal government. Previously, this federal program served nutritious snacks and meals to 727,000 low and moderate income families. Most Food Program recipients come from families at or near the poverty level, many headed by a single parent. Again, these parents will be forced to give up their jobs in order to care for their child(ren) at home.

The Aid to Families with Dependent Children (AFDC) Program is an integral component in the lives of many working parents with children. Day Care services affords these parents (mostly single parents) the opportunity to work, seek work, or receive training in order to prepare themselves for employment. The regulations of the AFDC program previously allowed working mothers to be reimbursed for the costs of child care. Under the Administration's plans, the income disregard is eliminated for AFDC working mothers. Additionally, there is a ceiling for reimbursement of expenses for child care set at $160./month. Day care services, whether in a center or a family day care home, are difficult to find at that price. Current full-time monthly childcare fees in San Francisco average $190. to $200./month for family day can and $210./month for full day care in a center-based location. In addition, care for an infant can cost as much as $312./month in a center

The Administration's plans also cut off AFDC funds for childcare expenses at fourmonths; after this time, no allowance is made for child care services. As stated previously, a criterion for the AFDC program is that the mother has to work, seek work or receive training to be eligible for reimbursable child care monies. How is a mother to qualify for AFDC if, after receiving 4 months of reimbursed expenses for child care, she is forced to remain at home in order to care for her child(ren)?

As more and more women enter the work force and the number of children in San Francisco increases, so too will the demand for childcare services. By 1990, there will be a projected 108,600 children between birth and 14 years of age living in San Francisco, and over half of them will have mothers in the paid labor force. Previously, some funds for child care services in San Francisco have been provided by the Office of Housing and Community Development. Under the Administration's plans, this source of funds will be eliminated in three years. The consequence for San Francisco will be the lack of child care services to provide for the ever-increasing demand.

In light of all the Administration's budget cuts, President Reagan suggests the private sector must take place of the public sector in providing funds to programs and services hit by cutbacks. However, the private sector is already suggesting it cannot keep pace with the demand for funds. In testimoney before your committee in Sacramento, CA, earlier this month, the executive director of the United Way of California indicated that despite an increase in contributions, the United Way could not adequately support all programs with additional funds; in fact, they mightnot even be able to support all existing programs.

Child care is an important service to maintain. San Francisco's parents and children are losing dramatically as a result of the Reagan budget cuts. Child care helps parents become employed; early childhood education programs substantially impact the growth and development of young children, and child care dollars spent now prevent tax dollars being spent later on health or rehabilitative services. The budget cuts present an impossible situation for many parents in San Francisco--the supply of services is being diminished at the same time that many poor families are losing their access to day care centers. The Children's Council/Childcare Switchboard of San Francisco urges you to consider helping to reverse the devastating effects of the Administration's budget cuts.

Sincerely,

Patty Burness

Patty Burness, Chair
Public Policy Committee

PB:vao

FAMILY AND CHILDREN'S SERVICES ADVISORY COMMITTEE

Ann Adler
Chairperson

Carla Gatto
Vice-Chairperson

Willie Parker
Vice-Chairperson

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Executive Assistant

Contra
Costa
County

Social Service Department
2401 Stanwell Drive No. 200
Concord, California 94520
(415) 671-4202

January 18, 1982

Congressman Robert Matsui
California State Capitol
Sacramento, CA

Dear Congressman Matsui:

The Family & Children's Services Advisory Committee of Contra Costa County, a citizens' advisory committee appointed by the County Board of Supervisors to advise them and the County Welfare Director on matters concerning low-income and welfare recipients, would like to call to your attention the immediate impact of the Federal decision to cut welfare and social services.

This is just the beginning! Attached is a statement of these effects.

Also, we would like to remind you that the full effect of the Federal decisions will not be felt until 1983 and beyond.

We appreciate your consideration of this very essential material.

Sincerely,

Ann Adler

Ann Adler
Chairperson

AA:de

THE FAMILY AND CHILDREN'S SERVICES ADVISORY COMMITTEE IS APPOINTED BY THE BOARD OF SUPERVISORS TO ADVISE ON THE EFFECT OF CURRENT AND PROPOSED SOCIAL WELFARE PROGRAMS, WELFARE LEGISLATION, AND THE PROBLEMS OF THE LOW-INCOME COMMUNITY. ANY COMMENTS OR RECOMMENDATIONS MADE BY THE COMMITTEE OR ITS INDIVIDUAL MEMBERS DO NOT REPRESENT THE OFFICIAL POSITION OF THE COUNTY OR ANY OF ITS OFFICERS.

REAGONOMICS AND THE COMMUNITY'S PROBLEMS

The cutbacks, approved in the Omnibus Reconciliation Act of 1981, will not only hurt the poor, the aged and the disabled, who depend on the Government for survival, but will exacerbate existing community problems -- problems, which in some way, affect every member of the community.

Among the programs to be slashed are aid to pregnant women, and to the working poor; programs serving the disabled and the elderly living independently, and programs preventing or dealing with child abuse. These reductions will trigger a domestic "domino effect" -- resulting in long-term health and social problems, when basic needs are neglected.

The long-term consequences of institutionalizing children, the elderly and the disabled, the cost of long-term health care and rehabilitation, along with the destruction of thousands of families, far outshadows any alleged budgetary benefits. The cuts, established by the Omnibus Reconciliation Act of 1981, will result in a shortfall of $58.2 million in Title XX programs for the State of California. These are social programs, set up to deal with child abuse and neglect, adult abuse and neglect, and prevention of unnecessary institutionalization of our children, our elderly and our handicapped. In addition, changes have been made in the Aid to Families with Dependent Children, limiting eligibility and reducing work incentives.

AFDC FAMILIES

It is easy to think in terms of "numbers" when talking about "dollars saved" by welfare cuts. But, what we are actually talking about is the effect on people's lives. The changes made by the Federal Omnibus Budget Reconciliation Act of 1981 are sweeping, and will affect many welfare families.

Those with income from a source other than welfare will be the most severely affected. In an average AFDC caseload, approximately 25% of the families have one or more persons employed. Of these, 10% may be marginally employed, working at minimal hours for a minimum wage. Some of these people will remain eligible after implementation of the budget cuts, but the amount they earn may not make it worthwhile.

Take for example, a mother with 2 children. She may be earning $600 a month as a bank teller -- if she remains eligible to assistance she will receive the standard deduction of $75 from her gross earnings, which is to include all mandatory deductions and work-related expenses, including transportation and/or special clothing required for her job. She also would receive an allowance for the $250 per month that she pays for the care of her children before and after school.

In reality, she takes home just over $500 after taxes, etc. are withheld from her check. Her transportation to work, including the trips to and from her babysitter, cost her $75 per month. This leaves her a net pay of $430, from which she must pay $250 for child care. From working, she realizes a gain of $180. She's one of the lucky ones -- she'll receive an AFDC grant of $231 to add to her net income to pay her living expenses.

Before these reductions in work incentives, she could expect most of her work expenses to be met, and she would receive aid in the amount of $506 per month. The reality of that is the fact that the average rent, in the Bay Area, is over $300 a month and the maximum aid for a welfare family of 3 is $506 per month. Her total income is $95 less than that.

The typical welfare case consists of a mother and children, with no father in the home. Those mothers, who are working, are trying to bring up the standards of their children's lives from the poverty level.

One of the not-so-lucky welfare mothers could, for example, be a typist-clerk for the County, earning a gross of $1126 per month. That sounds like quite a bit! Although having 3 small children (under the age of 7), those earnings would disqualify her from assistance, under the Gross Income Test added to the Financial Eligibility Determination.

Although she would claim the maximum allowable exemptions for tax-withholding purposes, with the deductions made by the County Payroll Department, her net pay would only be $803. From this she would have to pay the Credit Union $120 per month for her car payment and, because of the ages of her children, she would be paying $350 for child care. Her transportation, to and from work, would average approximately $50 per month, leaving her only about $283 from which she must pay rent and utilities, and buy food and clothing for herself and her children.

Before the program changes she could expect $570 a month, in aid. If she had no income at all and received the maximum welfare grant for a family of 4, she would receive $601 per month.

IT'S A PRETTY GRIM PICTURE -- WHICH WOULD YOU CHOOSE?

Many of the AFDC cuts will be disastrous for the working poor. Before, AFDC recipients who worked could still qualify for aid, if their income was below the AFDC grant level, after deducting work-related expenses, child care expenses, and a "work incentive" allowance. This arrangement made it possible for many recipients to take part-time jobs, working into full-time and, eventually, going off welfare completely.

Now, the deductible work-related and child care expenses are limited and the work incentive allowance is denied after the first four months. The result of all these cuts is that recipients will actually be penalized for working and, in many cases, they will have less money available for living expenses if they work!

Furthermore, a destitute, pregnant women will receive no financial aid until her sixth month of pregnancy. It is inconceivable that she could get an adequate diet, which is so necessary to the healthy development of her baby, if she has no money for food. In addition to the maternal health process, more babies will be born with developmental disabilities.

Not all of the Federal cuts have been made yet. The Legislature, in its special session, passed some of the changes necessitated by the new Federal regulations. These changes dealt, primarily, with the work allowances and incentive changes, but left untouched, at present, are the statutory changes that would affect pregnant women. Even these changes have been stopped by Federal court action, until notification issues have been settled.

Work incentive changes alone will result in over 809 recipients being cut off the welfare roles in Contra Costa County, and 1225 will have their grants drastically reduced.

When considering these changes, the following facts should be reviewed:

WHO IS ON WELFARE?**

1. There are approximately 725,000 aged, blind and disabled persons on the SSI (Supplemental Security Income) Program in California.
2. About 1.4 million persons receive AFDC and two-thirds of these are children.
3. The average number of children in an AFDC family in October, 1978 was 1.9. This is comparable in size to the general population. AFDC family-size has decreased constantly since 1965 by .10 persons per year; 86.2 of all AFDC families have three or less children (latest statistics available).
4. Eighty-eight percent of all AFDC families are single-parent, female-headed families and fifty-five percent of these have pre-school children.
5. Sixty-four percent of all female-headed families, in the State of California, are dependent on AFDC. Over ninety-eight percent of female-headed families, having mothers under 25, have pre-school children.
6. Fifty-three percent of all children on AFDC are seven years old or younger, and fifty-nine percent of all AFDC mothers are under 30.
7. The average AFDC family receives benefits for less than 2 years.
8. The racial composition of AFDC families is -- white, 40%; Hispanic, 23% and Black, 28%.

HOW MUCH DO THEY RECEIVE?

1. An SSI recipient receives $439 per month.
2. An AFDC family, consisting of a mother and one child, receives $408 -- $31 less than the one SSI recipient. A couple on SSI receives $815 per month, while an AFDC family of 4 receives only $601 -- a difference of $214.

ON WHAT DO RECIPIENTS SPEND THEIR GRANTS?

Public Assistance recipients spend virtually all of their income on the basic necessities -- food, shelter, clothing and energy. The annual rate of inflation for these items is now 17.7%, as compared to a 7.6% increase for non-necessities. Thus, not only does the impact of inflation fall most heavily on the poor, but the poor have almost no ability to alter their consumption patterns.

ARE RECIPIENTS REALLY POOR?

Poverty is relative -- how poor a person is can be measured by how much other persons, in similar positions, receive. Or, it can be measured by how much is received, in relationship to how much it costs to live. Set forth below are several comparisons, showing the relative poverty of AFDC recipients in California.

1. AFDC grants, in California, are substantially below Federal poverty guidelines (approximately 15% below).
2. In California, an AFDC family of 4 receives less than one-third of the median family income for a family of 4.
3. Seventy-seven percent of AFDC recipients have no personal property, other than the necessities such as household furnishings.
4. Only twenty-eight percent of AFDC recipients own a motor vehicle with an average net value of $225.
5. Only 7.5% of AFDC recipients are purchasing a home -- thus, property tax relief is of no value to most recipients.

**Western Center on Law & Poverty, Inc. "Interviews with AFDC families".

DO RECIPIENTS WANT TO WORK?

1. During a year, 60.6% of all AFDC recipients earn some income.
2. Over 33% of all adult AFDC recipients are registered with E.D.D. and are actively seeking employment. The remaining 2/3 are either working, caring for pre-school children, or are disabled.
3. Most of the aged, blind and/or disabled recipients are unable to work.

THUS, THIS DATA CLEARLY REVEALS THAT -- BEING A WOMAN, BEING YOUNG, AND BEING BOTH FATHER AND MOTHER TO YOUNG CHILDREN, ALL COMBINE TO FORCE A DEPENDENCY ON AFDC!

TITLE XX SOCIAL PROGRAM CUTS

Since June of 1975, the Contra Costa County Social Service Department has lost 50% of their social workers and has eliminated a number of contracts for community-based services. Many programs, that used to be provided, no longer exist, or have been reduced to insignificant efforts. There are no longer any preventative or early-warning services for families, elderly adults or children. We can no longer help poor families to cope with economic problems which create stresses on family members.

We no longer have social workers in the schools, where many truant children were found to be neglected children. These workers were able to intervene, at early stages in family difficulties, to improve school attendance and reduce neglect to the children, as well.

We can no longer provide family planning counseling, to the many young women who are confused about family planning choices. We no longer provide any meaningful day-care services, to help families feel secure about the care of their children while they are at work.

Licensing services of foster homes and day-care homes have been cut by over 50%. We can no longer help the frail elderly, who may need to move into nursing homes or return to their own homes following hospitalization.

What we are left with is the Protective Service and Foster Care programs for children and the Protective Service program for adults. However, these essential and needed services are now being effected, as further cuts occur.

The impact of further staff cuts, combined with the Recession which creates family stresses and increases the Protective Service caseload, simply means that, while the most critical cases of abused and neglected children will be helped, the follow-up treatment of the parents, on a voluntary basis, will be less available. This will, very likely, mean more children will end up in foster homes. In foster care, family reunification efforts will be slowed down as caseloads climb, and the gains made in the past, of reunifying children with their natural parents, will be lost.

Imagine a hospital -- where preventative medicine is no longer practiced, where only the Emergency Ward is in operation, with no other place for the sick and the accident victims to be treated until they can survive on their own.

Statistics show that neglected and abused children, and children drifting in foster care, will be the delinquents and law-breakers of tomorrow. The social service programs that work to break these negative behavior cycles in families are a good investment from a cost-benefit standpoint for Society and, more importantly, from a right-to-a-decent-life standpoint for children. Children should not be made the victims of economic policies that stress their parents into acting in abusive or neglectful ways.

For Society -- the population is growing older and, as people live longer, there is an ever-increasing number of persons requiring social service programs to keep them independent and safe. The increase in the number of frail elderly people needing protection would tax the service delivery system, even under the best of fiscal climates. Any failure to provide supportive services will lead to more expensive treatment in institutions and less socially desireable methods for meeting the needs of the elderly and disabled population. The social service programs, that provide the essential protective services for our children and adults, must be saved!

IN-HOME SUPPORTIVE SERVICES

The State has made an attempt to control I.H.S.S. costs, by passing SB 633, which redefined what types of services would be allowed, eliminated payments when a spouse is available and able to perform services, and allows counties to determine what services to cut back to meet the amount of money available.

In Contra Costa County, this has, so far, resulted in the elimination or reduction in services to 2,821 recipients of I.H.S.S. Further cuts, as a result of Federal cutbacks, will make it impossible for many elderly and disabled persons to continue living in their own homes. These people need help with housekeeping, cooking, bathing and other personal services to avoid going into nursing homes or other institutions.

ONCE AGAIN -- BECAUSE SO MANY WOMEN ARE POOR IN THEIR OLD AGE (OVER 50%) THEY BECOME THE INVISIBLE TARGETS OF THESE CUTS!

CHILD PROTECTIVE SERVICES

Child abuse and neglect is rising at an alarming rate! There was an increase in referrals, to Contra Costa County Social Services, for child abuse (both physical and sexual) and neglect, of 35% in East Contra Costa County, 13.5% in West County and 9.5% in Central County, between the first quarter of 1981 (ending March 31st) and the second quarter (ending June 30th).

Several factors account for the more rapid rise in East County -- this part of the county is growing more rapidly than any other. Pittsburg, alone, experienced a 60% increase in population during the ten year period between 1970 and 1980,** with Brentwood not far behind, with a 55.2% increase. This population is primarily young families, in search of "affordable housing" -- families that are especially vulnerable to economic downturns.

Studies in violence, such as the one done by the U. S. Commission on Family Violence, show that family violence is no respector of class. Rather -- violence is seen as an acceptable way to vent frustration, for many people who have learned a pattern of abuse from their own parents. When life becomes frustrating, through the loss of jobs or homes, the first to feel the impact are family members, especially children who are the most vulnerable to abuse.

Statistics show that, nation-wide, 67% of the children in Child Protective Service caseloads are from families who are not eligible to welfare.*** These statistics are proven, at the local level, by the records of the Contra Costa Social Service Department.

This is a community problem that can only worsen when the economic climate dips. In addition to economic problems, the myriad of pressures put on the nucular family by the outer society, and the dearth of resources to cope, builds the frustration level to the danger point in many families.

** State of California, Health & Welfare Agency, Annual Planning Information, May, 1981

*** Social Service, U. S. A., July-September, 1978

Let's go back to the first quarter of 1981 -- during that time an average of 52% of Contra Costa County referraks were acceoted, But, by the end of the second quarter, only an average of 48% were accepted. Not that these referrals were less severe, but rather staff decreases, due to reduced funds and increases in referrals has resulted in an increasing difficulty of staff to keep pace with the problems. Remember -- the increase in referrals shows only the tip of the iceberg! Federal cuts will aggravate the lack of services to keep families together and to prevent child abuse.

The cuts also come at the very time when there is an increased awareness of abuse of the elderly, by other family members. Where does it stop? How much is Society willing to tolerate, when it comes to the abuse of its most vulnerable members -- the children and the frail elderly?

Since 1975, the Social Service Department has had to reduce its line staff by 50% (in July, 1975 there were 356.4 line workers, exclusive of supervisors; by July, 1981 there were only 180.6 workers). What has this meant in terms of services? At the beginning of the Title XX programs (in 1975-1976) the first plan shows that, in addition to the 12 mandated programs, Contra Costa County also had 10 optional ones, including Special Care for Children in their own homes and Services to the Blind and Disabled. In an attempt to adjust programs to meet budget cuts, only 3 programs are mandated -- Child Protective Services, In-Home Supportive Services and Out-of-Home Placement for Children.

It's impossible to determine, at this time, the effects of the cuts. Congress has yet to appropriate money for service programs. It could appropriate as much as $2.4 billion or, more likely, an amount closer to $1.9 billion -- which would increase the shortfall in California by another $30 million, for a total of $88.2 million. And... the Administration is pressing for further cuts in these programs!

BC:de

DIDI HIRSCH COMMUNITY MENTAL HEALTH CENTER

LOS ANGELES PSYCHIATRIC SERVICE

Supported by United Way; Los Angeles County Dept. of Health Services (Short-Doyle);
L.A.M.P. – Minders; United Hostesses; Community Outreach; Culver City Guidance Clinic Guild.

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December 14, 1981

COMMITTEE ON
RECEIVED
DEC 17 1981
WAYS AND MEANS

Honorable Dan Rostenkowski
Attention: John J. Salmon, Chief Counsel
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

I am writing to submit information relevant to your hearings on the impact of the Administration's budget cuts.

The Community Mental Health Center which I direct stands to lose approximately one quarter of its services in 1983 as a result of the repeal of the Mental Health Systems Act. Unde that Act, our Center would have been eligible for a financial distress grant, but the block grant mechanism makes no provision for such a grant.

Our Center in the last fiscal year provided 74,964 person contacts to 14,005 persons. About one fourth of these persons will not be helped if we are unable to replace federal funds which now pay for their care. Among those losing services will be children, the elderly, and those unable to pay for private care.

I hope that the Congress will be able to provide sufficient funds for mental health to avoid a loss of vitally needed services in this Center and elsewhere.

Sincerely yours,

Gerald F. Jacobson, M.D.
Executive Director

GFJ:cgc

In Memoriam MRS. I. KINGDON (DIDI) HIRSCH Vice President

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International Association of Fire Fighters

Vincent R. Sombrotto, President
National Association of Letter Carriers

Maurice J. Twomey, Exec. Vice President
National Association of Postal Supervisors

Fair Oaks, Calif.
Dec. 28th 1981

Mr. John Salmon Ch. Council
Comm. Ways & Means
1102 Longworth House Office Bldg.
Washington, D. C. 20515

Dear Sir:

Enclosed are some of the items that have caused concern to the Retired Federal Civil Service Employee and the results of the Administrations decreasing benefits and entitlements.

The average annuity for the Retired Federal Civil Service Employee is approsmately $985.00 per month, however there are many of them that receive less then average. This is very much noticeable in the surviving spouse of the retired. Regardless of the amount we have been assured that after much thought and study by our Legislature we would be assured of a twice a year Cost Of Living Adjustment, this was to replace the one percent add on we had previously received due to the laps of time that we received our check and the rise in the Cost Of Living.

In the past 6 months our twice a year CCLA has been reduced to once a year, our Medical Plan is in jeopardy and an alledge system to re-evaluate the C.P.I. and if the above mentioned is not held in check the retired Federal Civil Service Employee will have lost between 25 & 30 % of his benefits and entitlements.

What the reductions have caused as to date; Some retirees are seeking part-time employment, some have cancelled major purchases such as Car, T.V. and etc., many have cancelled plans to take trips, vacations and etc. have instead opt for short local trips and less often.

1639 PALAIS ROAD ■ ANAHEIM, CALIFORNIA 92802

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National Association of Postal Supervisors

page 2

Over one third of the population of our country is over 55 years of age and many are Retired Federal Civil Service Employees, it would seem that a curtailment of travel, purchasing and various services would be a contributing cause for the recession that appears to be getting worse instead better.

As per our local newspaper dated April 6,1981 The C.P.I. has increased 126 % Since 1967, however many of our every day goods and services have increased proportional higher such as; T.V. repair 400 %, Auto repair 200 %, Appliance repair300 %, Insurance for home and auto 200 %, Gasoline 400 %, while they are not every day expenses the average household will experience at least 50 % of them every year.

The only way to controla balanced budget is to decrease Government spending, however we only have to look at our local Dairy Subsidy and the millions of tons of Cheese stored and the per day charge for same. To realize a decrease in deficit spending The Administration will have to curtail all Government spending not just a select few.

To recruit and maintain a high standard of Federal Civil Service Employees we must assure all present and future employees of some safegaurd of salary and retirements and benefits.

RESPECTFULLY SUBMITTED.

Joe C. Perry

Joe C. Perry Vice Ch'mn
Calif. Coalition Fair
4912 Rockland Way
Fair Oaks, Cal. 95628

FRIENDS COMMITTEE ON LEGISLATION OF CALIFORNIA
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COMMITTEE ON
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JAN 25 1982
WAYS AND MEANS

21 January 1981

John J. Salmon
Committee on Ways and Means
1102 Longworth H.O.B.
Washington, D.C. 20515

Dear John Salmon:

Enclosed are two letters which I received from people who are concerned about the federal cuts in social services. Please include them in the written testimony from the January 18th hearing in Sacramento.

Thank you.

Sincerely,

Beth Steckler

Beth Steckler
Legislative Advocate

January 2, 1982

Single Parent Action Network
10560 Coloma Rd
Rancho Cordova, CA 95670

Dear Reader,

This letter is a cry for help to be directed to whomever will listen and perhaps advise me where I might obtain assistance.

I am a single parent raising two small children. I have been a single parent for 4 1/2 years and have been working the entire time except for two weeks off when I gave birth to my youngest child. My child care was provided by Aid to Families With Dependent Children (AFDC) which enabled me to work full time.

I worked hard from the clerical field on to receive my real estate license and currently taking college courses to improve my skills and increase my income at my present job as a Drafting Aid I. I worked my way from private companies of low income and no benefits to my present State employment that provides health and dental benefits for me and my family.

My goals, dreams and hard work has been totally devastated by the AFDC cutbacks received December 1981.

My children: Jeffrey (4 years) and Jennifer (6 years) require child care in order for me to work; because of the cutbacks I was forced to take my children out of the day care center. My little boy was sent out of town to live with my relatives as I couldn't afford a babysitter on my monthly income. My daughter continues to attend kindergarten with the help of my eighteen year old brother, walking her to school and caring for her until I arrive home. However, this arrangement will not last much longer as he is obtaining employment therefore, forcing me to send my daughter away to relatives, friends and a new school.

Where is the justice for the honest hard working people that have struggled to help themselves? I have two choices at this time: (1) to find another home for my children in order that they may be cared for while I continue to work or (2) to give up everything I have accomplished and totally depend on welfare, food stamps and Medi-Cal as my existance.

If you have any suggestions where I might seek help please advise me.

Thank you,

Linda Monson

Linda Monson
2750 Mendonca Drive
Rancho Cordova, CA 95670

SONOMA COUNTY AREA AGENCY ON AGING
2544 CLEVELAND AVENUE, SANTA ROSA, CALIFORNIA 95401
PHONE: (707) 527-3138

January 14, 1982

RECEIVED JAN 18 1982

American Friends Committee
on Legislation
926 "J" St., Room 1214
Sacramento, CA 95816

Dear Committee:

It is my understanding that you are collecting testimony having to do with problems faced by individuals in need of in-home care. Specially, your concern relates to those who have experienced recent cuts in services.

After talking with Mr. Don Beltrami, Section Chief of the Sonoma County Department of Social Services, In-Home Supportive Services cuts in Sonoma County have amounted to approximately $40,000 per month in domestic services--primarlily to older people. This is approximately $480,000 per year. This cut has meant that many seniors and disabled persons who previously received these important services no longer are eligible.

I would like to also indicate the growing awareness by those of us associated with the concerns of the aging about the need for focusing attention upon services which are provided to older people in their homes. I have included recent concerns voiced by our area's seniors during a conference.

As I have not had a full opportunity to review the local affect of other cuts or planned cuts as they affect our county's approximate 50,000 persons over the age of 60, the issues and problems are of course much broader than simply indicated by this letter.

Please feel free to contact me regarding any future public meetings or discussions about in-home care.

Sincerely,

Jerry Cassen by B.M.

Jerry Cassen, Chair
Health and Welfare Committee
Advisory Council

cc: Herb Legge, Chair, Area Agency on Aging Advisory Council

SONOMA COUNTY AREA AGENCY ON AGING
2544 CLEVELAND AVENUE, SANTA ROSA, CALIFORNIA 95401
PHONE: (707) 527-3138

DATE: October 20, 1981

TO: Members, California Assembly Committee on Aging

FROM: Jerry Casson, Member, Sonoma County Area Agency on Aging Advisory Council,
Chair, Health and Welfare Committee, Sonoma County AAA Advisory Council,
Chair, Sonoma County Council on Aging, Inc.,
Recorder, Regional State House Conference on Aging,
Delegate, State House Conference on Aging

HEARING TESTIMONY "LONG TERM CARE"

I am here speaking both for myself and on behalf of the older people of Sonoma County and to bring to you the concerns of the Senior persons of Sonoma County and the Northern Bay Counties as expressed by them at local and regional meetings held as preliminaries to the State House Conference on Aging this year. In Sonoma County alone 250 seniors attended the Sonoma County Conference on Aging. A summary of their concerns related to long term care is attached and also, a summary of the concerns raised at the Marin County Conference, and at the Regional State House Conference--which included all North Bay Counties.

I am concerned about the quality of nursing home care because of my 40 years of employment by the Sonoma County Social Services Department (the last 15 as Assistant Director for Services). During those 40 years I was involved with all facets of social service programming. I also served on the California State Task Force which developed the first Title XX Plan.

During those years of public service I saw the trauma the aged population experienced when they had to leave their own homes and enter nursing homes and the cost of facility care to the aged person and to the taxpayer. I resolved that upon my retirement I would volunteer my time to work towards the development of: (1) alternative services to help people remain out of facilities as long as possible, and (2) fully adequate, quality care in nursing home facilities rendered in a humane manner--in those cases when such care becomes necessary.

At the recent hearing on Nursing Home Care at Sacramento, the question was raised by one of your panel members as to what alternatives there are to care in facilities. We believe that the following recommendations would not only provide a broad range of in home care, but that it would result in saving tax dollars. At the present time many persons are exhausting their resources on expensive out-of-home care and then having to apply for Medi-Cal. Twenty years ago if one had over $50,000 in resources it was expected that it would care for the individual for the remainder of his/her life, with probably something left for an estate. In these days, at a minimum of $1200 per month in a nursing home (and most private patients pay $1400 and up per month), this amount of resources would only last slightly over 3 years, and probably less than that, as this does not include the "extras" and the cost of medical care. I have had people phone me to state that "Mother sold her place for $50,000 and it is now all gone for her nursing home care, what do I do now."

But on the other hand, I have an elderly couple, whose children live away from the parents' community, but I, as a friend, helped set up a plan and I stand by to give advice when needed. This couple is middle class, foreign born, frugal and, although the husband has had a blue collar job always, they saved their money, bought their own home, and prepared for their old age. They are both now in their eighties, he with a heart condition, and cataracts, she helpless from 2 broken hips, and a long debilitating terminal illness. When she left the hsopital from the first hip surgery, she was in a nursing home, and he became frantic that their funds would be exhausted, and they would have to sell their home. By our insistance to the nursing home, that we intended to take her home, and that the plan of therapy must be followed so that she could be cared for, it was possible to return her home. Over the last 4 years she has had one other acute hospitalization, and he was hospitalized for a serious heart attack, but both have continued to live at home, on daily in-home care of 6 hours. She is completely helpless. Their physician is impressed with the care she receives in her own familiar sorroundings and they are paying for all of it out of their own resources. Without this plan, she would have been in a nursing home, and he in residential care, and their funds would have been exhausted and tax dollars would be used.

There are many similiar stories that can be told.

The recommendations are based on redirecting of existing resources more than requesting more funds, and on helping the aged person to maintain themselves longer on their own funds, instead of finding it necessary to ask for tax dollar support.

RECOMMENDATIONS:

1. Financial-Medi-Cal like Medicare covers payment for care in nursing homes and home-health aides. However, many persons do not need this type of professional care, ie the recovered stroke case that needs help with daily living, and this could be provided by home aide/helper.

   In this year's budget, heavy cuts have been made in the home/maker/ chore program which is the very program that keeps people in their homes.

   If a person is at home, medical supervision can at times be necessary. The difficulties for an elderly, ill patient to go to the physician are extensive---doctors rarely make a home call, ambulances and special types of transportation are expensive, and often unavailable in rural areas, so Medi-Cal should covermedical supervision calls through visiting nurses, and nurse practitioners. At present nursing visits are allowed only for specified treatment plan.

   Preventive health education, and health screening should be sponsored, including rural areas.

2. Each Area Agency on Aging Public Service Area should have a local long-term care committee including 60% lay persons and 40% professionals to help the communities establish a coordinated community based system that can assess each client's needs, and develop with this client and help manage an individual service plan referring client to appropriate resource, follow up and assess outcomes and serve as advocate.

There must be public support to respite care such as day services programs, home delivered meals, transportation costs for volunteers who provide friendly visiting, escort and shopping services, etc.

Jerry Carson

SONOMA COUNTY AREA AGENCY ON AGING
2544 CLEVELAND AVENUE, SANTA ROSA, CALIFORNIA 95401
PHONE: (707) 527-3138

WHITE HOUSE CONFERENCE ON AGING FROM SONOMA COUNTY
SANTA ROSA CALIFORNIA
NOVEMBER 20, 1980

Recommendations from the Long Term Care Workshop

1. Since the aide is the primary provider of care for the residents in Long Term Care facilities, quality of care can be upgraded by upgrading the job of the nurse's aide. This can be done by:
    a. Increasing salaries and providing career advancement ladders.
    b. Increasing the quality of the training and having the academic part of the training done outside of the facility
    c. Lowering aide/patient ratios

2. Proper placement is a top priority. This can be done only by:
    a. Developing better alternatives and a greater number of them. Examples of these alternatives include:
        1. In home support services
        2. Housing; - low income, shared, easy access
        3. Day service programs
        4. Intermediate care facilities

3. The inspection process should be upgraded by:
    a. Increasing the number of inspections
    b. Having inspections more frequently
    c. Setting up a system, possibly by staggering dates, so the inspections will truly be unannounced as is the intent of the law
    d. Upgrading the regulations governing the operations of Residential Care Homes

4. Since quality of care and the kind of care is affected so greatly by the financial aspect of long term care, the following should be considered:
    a. Providing alternative financial support for those who do not need the costly care of a skilled nursing facility, but who can no longer afford independent living
    b. Any medical/medicare increases should be specifically tagged for aides salaries and benefits.
    c. A feasibility study should be done on changing the profit orientation of long term care to a nonprofit status.

5. The federally mandated Ombudsman Programs should have increased financial support, thus allowing them to truly remain independent bodies.

SONOMA COUNTY AREA AGENCY ON AGING
2544 CLEVELAND AVENUE, SANTA ROSA, CALIFORNIA 95401
PHONE: (707) 527-3138

LONG TERM CARE WORKSHOP

In the United States today there are 1½ million people living in long term care facilities. In California alone there are 100,000 elderly people living in Convalescent Hospitals. There are 1500 people in Sonoma County who did not attend the White House Conference on Aging; they are residents of convalescent Hospitals. There are approximately 1000 more living in residental care homes. Who are these people? They are mostly white females. Their average age is 82. Forty to sixty per-cent are at the poverty level. Fifty per-cent of these people have no families to look out for them. And probably the most chilling statistic is that unless there are drastic changes, one out of five of you reading this, will spend some time in a convalescent hospital.

Statement of John Garamendi, California Senate Majority Leader, Chairman of the Human Resources Committee of the National Conference of State Legislatures

The changes encompassed in the Omnibus Budget Reconciliation Act and the Continuing Resolution of December 1981 have made major alterations to the Aid to Families With Dependent Children Program in an effort to reduce federal expenditures. Some of these cuts make little programmatic sense. Instead of continuing to reduce critical elements of this program in order to achieve short-term fiscal savings, I urge you to confront the major structural problems inherent in the AFDC program and adopt my welfare reform proposal which has been endorsed by the National Conference of State Legislatures.

National Welfare Reform

In 1980, I successfully sponsored legislation to begin reforming the welfare system. This "Employment Preparation Program" is being implemented in San Mateo, Ventura and Lake counties. The program emphasizes mandatory job search (especially for new AFDC applicants). For those applicants and recipients who have not located a job during the first four weeks of intensive job search, the program then supplies concentrated employment and training services. The preliminary results have been so encouraging that the Governor's Budget proposal for California's next fiscal year increases the budget for this program (and related welfare reform measures I sponsored) by $8 million, a huge increase when one considers the State's fiscal problems.

Another welfare reform program which will be tested in California is *supported work*. The National Manpower Development Research Corporation has completed a five year demonstration on supported work with encouraging results. Their most recent reviews of supported work in Boston and Chicago are very encouraging. Those programs have been able to acheive placement rates of 70 percent for long-term welfare recipients at significantly less public cost than reported due to job training in the private sector.

As chairman of the Human Resources Committee of the National Conference of State Legislatures, I have proposed a reform of our national welfare system based on the lessons we are learning in California. The proposal divides job-ready AFDC applicants and recipients from those who are currently unemployable. It then structures employment and training services for employables so they can participate in the labor force *before they become dependent on welfare*. Critical to this reform is adequate funding for employment services and simplification of the program so that applicants and recipients of welfare can be provided with structured employment services and training without risking loss of impetus by being forced to apply to CETA for training, or otherwise slipping through the gaps in the CETA and WIN programs. A copy of the NCSL resolution and the detailed proposal are attached.

Work Incentive Program

The continuing resolution adopted in December 1981 has reduced funding to the Work Incentive Program (WIN) by 34 percent. This drastic cut has the effect of eliminating or crippling employment services to employable welfare recipients. States must somehow grapple with an AFDC program which no longer provides incentives for recipients to work, and in addition does not provide states with funding to assure that recipients work. The changes in eligibility and the reduced funding for WIN were designed to save federal dollars. I hope that the Ways and Means Committee will study the long-term impact of these measures. The actual impact may be higher state and federal costs because of potentially decreased participation of recipients in the labor market. The California Legislature is directing our state welfare agency to study the impact of these cuts because of the concerns I have expressed.

The State of California is attempting to determine how it will implement the cuts in the WIN program. Right now, the choices are bleak. The state must either totally eliminate WIN services in most of its counties to provide employment services in some areas or continue to fund the program in most counties only to perform the paper-work requirements mandated by federal law.

This drastic cut will reduce the staff by 47 percent in the Work Incentive Program. Our Employment Development Department estimates that this will result in placing 20,000 fewer welfare recipients in jobs at a loss of $78 million in welfare grant reductions. The State of California cannot afford the misguided efforts of the federal budget cutters. In an effort to save $18 million in federal and state funds the federal government is willing to forgo $78 million ($39 million federal, $39 million state). In addition, this false economy only results in keeping employable recipients dependent upon the welfare system.

Chart I
Funding for WIN

	Fiscal Year 1981	Continuing Resolution
National	$365 million	$245 million
California	$46.8 million	$30.4 million

Unfortunately, it appears that Congress took this action drastically reducing WIN funding without any information about the achievements of WIN in California. In the fiscal year 1980-81 in California, 45,288 welfare recipients entered employment through the WIN program at a welfare savings of $176.5 million. Our "entered employment" and welfare savings exceeded the combined achievements of states Illinois, New York, and Pennsylvania. The $176.5 million welfare savings was achieved at a cost to the federal and state government of $51 million, ie., for each federal and state dollar expended, $3.50 was saved.

I believe California's achievements can be duplicated in other states. The 14 Employment Opportunities Pilot Projects have demonstrated that mandatory job search assistance for those required to participate results in a job placement rate of 52 percent. In addition, imposing such a requirement apparently has the impact of reducing or eliminating payments to another 18 percent of the mandatory registrants. Secretary Schweicker's own AFDC proposal to the Office of Management and the Budget showed savings of $176 million for mandatory job search assistance -- yet Congress took action to reduce the funding to WIN, the program mechanism for implementing this useful requirement.

Congress should act immediately to restore funding to the WIN program this year at least to previous levels.

Community Work Experience Program

Recently we have heard that the Reagan Administration will be proposing mandatory Community Work Experience Program (CWEP) as part of the federal 1983 budget. California had a similar program when the President was Governor of California. The final evaluation of that program found it administratively infeasible and did not save money.

One of the primary difficulties in implementing the CWEP was the lack of funding for work related expenses and supervision of the recipients. The Community Work Experience Program option provided to states in the Omnibus Budget Reconciliation Act, limits the training related expense given to recipients to $50 and does not provide funds for supervision. If CWEP is to be mandated, these expenses should be adequately funded by the federal government, not passed on to the states. It will be impossible to require recipients to participate in workfare without providing child care and transportation and the $50 per month limit may be insufficient to provide these work related expenses.

We are considering legislation in California which would test a work experience program for unemployed parents in San Diego County. The work experience program in this legislation would offer an array of employment and training programs. Placement in the work experience program would occur only after the recipient has participated in mandatory job search assistance and an evaluation that the CWEP is an appropriate place for the unemployed recipient. Work experience should be included as part of a comprehensive employment and training program for recipients. However, work experience as the only employment and training strategy may not result in any welfare savings. If CWEP is inappropriately utilized, it could keep welfare recipients in the welfare system by providing workfare jobs in the public sector instead of employment services and training which would lead to jobs in the private sector. For example, preliminary data from the workfare in the foodstamp program shows that the best benefit/cost ratio achieved was $29 saved for every $50 spent to save it.

I urge you to review the extensive information that is available on programs which put recipients to work. I would also urge you to support and expand those programs which are proving successful instead of mandating programs without adequate funding and with questionable results. I believe that the key elements of my welfare reform proposal are based upon demonstrated results and should be adopted by your committee.

Appendix I, Work Incentive Program ,1980-81

TABLE VIII

ENTERED EMPLOYMENT

STATE COMPARISON

State	Current Year	Prior Year	Percentage Change
California	45,288	40,618	+ 10.31%
Illinois	15,338	13,130	+ 14.39%
New York	15,700	15,418	+ 1.79%
Pennsylvania	11,215	11,254	- 0.3%
Ohio	20,178	16,400	+ 18.7%
Michigan	17,945	14,439	+ 19.53%

Appendix I, Work Incentive Program, 1980-81

TABLE IX

RETENTION RATE

STATE COMPARISON

State	Current Year	Prior Year	Percentage Change
California	90.81	87.43	+ 3.38%
Illinois	89.06	91.50	- 2.44%
New York	87.64	85.65	+ 1.99%
Pennsylvania	84.67	84.44	+ 0.23%
Ohio	90.07	88.86	+ 1.21%
Michigan	82.30	82.77	- 0.47%

Appendix I, Work Incentive Program ,1980-81

TABLE X

WELFARE GRANT REDUCTIONS FY 80-81

STATE COMPARISON

California	$176,504,902
Illinois	39,661,068
New York	79,317,722
Pennsylvania	32,694,810
Ohio	53,496,370
Michigan	64,450,157

Appendix I, Work Incentive Proagrm, 1980-1981

TABLE XI

AVERAGE HOURLY WAGE FOR ENTERED EMPLOYMENT

STATE COMPARISON

California	$4.76
Illinois	4.28
New York	3.93
Pennsylvania	4.32
Ohio	4.31
Michigan	4.91

COMMITTEE: HUMAN RESOURCES

TYPE OF RESOLUTION CONSENT

IMPROVING THE AFDC PROGRAM

The AFDC program, as it is currently administered, is seriously flawed. The following problems are characteristic of the program:

- Disincentives for work and development of self-sufficiency;
- Inadequate funding for employment services and training for employees;
- Provision of insufficient incentives to the private sector to hire employables;
- Imposition of costly administrative burdens on states because of the program's complex structure and rigid federal mandates.

State legislatures have long been involved in overseeing and improving the AFDC program and will continue to work to make the program effective. NCSL believes that the AFDC program can be reformed to correct the defects mentioned above, pending a more comprehensive reform of federal welfare programs. Specifically, NCSL urges that the following changes be made in the existing AFDC program:

- Separation of employable applicants and recipients from unemployable applicants and recipients;
- Development of a jobs component which assists employable applicants and recipients to secure employment as quickly as possible through direct job placement, mandatory job search, and required participation in appropriate job training programs;
- Adequate funding for the jobs component through redirection of existing employment and training resources and savings

from administrative simplification of programs;

- o Development of additional incentives for the private sector to hire employable applicants and recipients;

NCSL further believes that, in light of the current fiscal problems which many states face, it is inappropriate to shift additional AFDC costs to the states by altering the AFDC funding formula.

Appendix III, National Welfare Reform

FAMILY ECONOMIC SECURITY ACT (FESA)

Purposes and Intent

1. Establish a program of economic security for all families with children under the age of 18 that meet specified criteria.
2. Families will be provided with an opportunity to establish their own economic security through a series of job training and placement strategies. In the event that eligibles are unable to obtain employment immediately, economic assistance will be provided until such circumstances change.
3. States will have the flexibility to structure and administer their own programs within certain guidelines.
4. The program will provide incentives for the private sector to participate in the employment of the eligibles.
5. All funding that has heretofore supported eligible families will be consolidated into one program, and this program requirements and administration will be streamlined and simplified.

Eligibility

1. The AFDC Title IV-A eligibility criteria will be utilized for this new program.
2. Title IV-A and Title IV-C (WIN) of the Social Security Act will be replaced. Titles IV-B, IV-D and IV-E as presently written into law will be retained.

Payments and Benefits

1. An interim employment support stipend will be provided for families which do not have resources to tide them over until jobs can be found. The provision of this interim payment shall not exceed 45 days.
2. For those eligibles determined to be unemployable at the time of application and assessment, the State will establish a level of benefits, to be further defined.

3. At its option, the State can provide additional benefits as allowed under present law.

4. The Federal-State matching ratio for these benefits will continue as provided under present law.

Jobs Component

1. Applicants must be screened for employability.

2. Obviously unemployables will be referred for income maintenance assistance.

3. Prior to any other job training services, those who are apparently employable are placed in mandatory job placement and/or job search assistance work shops and supervised job search.

4. Those who are still unemployed after 3 or 4 weeks of job search are approved for additional job search assistance or training such as:

    a. on-the-job training
    b. classroom training
    c. work experience
    d. blending of wage with aid payments
    e. supported work
    f. career upgrade

5. Emphasis shall be placed on the use of private sector job training programs whenever possible. The use of such private sector programs will allow for better coordinatión of the area job market and the present and future economic needs of both the employer and the community as a whole.

6. Nothing in this Act shall preclude the establishment of performance contracts with the private sector to carry out the above mentioned services.

7. Incentives will be provided to encourage private sector employment of program eligibles. Such incentives shall include the following:

    a. Uniform application of tax credit for employers.
    b. Additional tax credits for employers who provide day care for eligibles.
    c. Preferential unemployment insurance experiential ratings for small businesses which hire eligibles.
    d. Preferential consideration in granting of federal and state contracts for small businesses which hire eligibles.

e. Blending of aid payments with wages provided by employers in sectors of the economy that are having difficulty competing with low wages in other countries and are in danger of exporting their jobs.
f. Subsidization of medical care benefits during initial months of employment.

8. If an eligible finds employment through the system, leaves work and seeks to re-enter the system, the entire application process and job search components must be repeated.

9. Those deemed unemployable must be re-evaluated periodically, including their employability.

10. Resources for job development and services should be directed to those who are most employable. States should establish a plan to identify the priorities for these services.

Sanctions

1. Sanctions shall be applicable to those who refuse to participate in the employment development program or who refuse to take a job.

2. Exempted from the sanctions are those who are unable to gain or maintain employment because of:

   a. Health
   b. Child care problems
   c. Care for dependent, disabled persons when no other source of care is available.

3. In the event that the State determines that an eligible who would otherwise be exempted because of the above reasons must seek employment, the State must provide the resources so that the eligible can overcome those barriers in order to achieve economic security before the sanctions can be imposed.

Funding

1. States will continue to receive their present entitlement ratio in Federal funds.

2. States will be allowed to recoup some of their savings through a caseload baseline determination. Caseload and benefit increase trends over a base year period will

be calculated, and target yearly increases will be established. If a State stays under the target increase, it will recoup a percentage of the Federal dollars that are not spent for income maintenance benefits. The percentage of retained funds will be pro-rated based on the degree of success of each State. The State must utilize these recouped funds for the Family Economic Security Act program.

3. Those States which exceed the target will not be penalized through a cap or reduced match of the Federal share.

4. WIN, CETA and ES funds shall be consolidated and earmarked for the jobs component of the Family Economic Security Act. These funds will be distributed to the States on the basis of each State's share of the national caseload.

[A copy of a hearing transcript "Hearing on Employment and Training of Welfare Recipients," Senate Committee on Health and Welfare, California Legislature, Apr. 7, 1981, has been retained in the committee files.]

STATEMENT OF FLORINDA GIACCAI, DALY CITY, CALIF., PRESENTED TO SOCIAL SERVICES COMMISSION

My name is Florinda Giaccai, I live at 75 Belhaven, Daly City, CA. As a Foster Mother for "special" children, and a taxpayer who is aware of the tight budget, I want to voice my concern and apprehension over the restructuring and change going on in the Department of Social Services.

It has taken years of hard work and cooperation between Foster Parents and the Department of Social Services to create a harmonious relationship between Foster Parents and Social Workers. After many years of "special" children being ignored and neglected by society. Social Workers have been trained to work with "special" children to understand their needs and now because of tight budget and cutbacks, these valuable workers are being replaced by inexperienced (though well meaning) people.

I'd like to recommend that Social Services continue to use specially trained workers who have expertise and understanding of these handicapped children coming into the Department. Their expertise and understanding of these developmentally disabled children and, their knowledge of appropriate available resources. Also, their rapore with "special" educational programs are invaluable to a Foster Parent like myself who specializes in care of developmentally disabled children.

It would take months, maybe years to train other people. I would be greatly distressed if I had to begin at rock-bottom with new people who had to learn to understand and empathize with my children and their problems. It would be detramental to to their security.

As a taxpayer, I can see a tremendous saving, in one experienced worker being case manager for the six special children in my home. The rule is that a Social Worker must have contact with each child in her/his caseload at least once a month. With the large caseloads all workers have this would be impossible!!

One worker, making one contact, involving 6 children, uses less tax dollars than 6 workers making 6 contacts whenever, her caseload allowed. With developmentally disabled children there are always crisis either with themselves or with distraught parents that need to be tended to immediately. If crisis are neglected, these children may end up in institutions or a life time of support from tax dollars. A dollar spent now to rehabilatate and educate these children will save thousands of tax dollars in the future, to say nothing of the waste of human lives and human potential that will be needlessly sacrificed.

I respectfully ask the commission to carefully consider their decision when so much is at stake. Our children are our future, and they are the charges and responsibility of us all. THEY SHOULD COME FIRST NOT LAST!!!!

Jan. 21, 1982

Dear Mr. Rostenkowski, Chairman

We understand you were having public hearings here in our state to find out how our citizens feel about the Reagan Administration.

Since I did not have an opportunity to appear before your committee I would like to express myself in writing.

I am against Reaganomics, trickle down theorys and other hocus pocus experiments by the present administration that are hurting our people and leading our country into another Republican Depression.

Reaganomics is a failure, 10 million people out of work, high interest rates, people can no longer buy a home or a car, state, county and local services are deteriorating and hurting severely our elderly, sick, poor and disabled.

We ask your committee to put a stop to the Reagan Administration in any further program cuts that are sure to severly hurt millions of our citizens.

Thank you very much.

Sincerely,

Joe Gonzales
407 Ojai Rd. #1
Santa Paula, Calif.
93060

Hacienda La Puente Unified School District
PRESCHOOL AND PARENTING PROGRAMS
1110 FICKEWIRTH, LA PUENTE, CALIFORNIA 91744 • (213) 968-1536

Patricia Mohr
Administrator

COMMITTEE ON
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AN 21 1982
WAYS AND MEANS

January 14, 1982

John J. Salmon, Chief Counsel
Committee on Ways and Means
1102 Longworth H.O.B.
Washington, D.C. 20515

Dear Mr. Salmon:

Enclosed is a letter written by one of our parents expressing the difficulty she is experiencing with recent federal cutbacks. Her name is "legion." We serve approximately three hundred children ages three months to eight years. Their parents are either the "working poor" or vocational trainees. Our funding source is State Department of Education/Office of Child Development. The per capita funding is so low that many of our staff members who are single head of household are also classified as the working poor.

Children in our programs are able to receive nearly adequate medical services. However, dental health services are totally unavailable.

Children can't wait, John Salmon. They grow older each day. If we are to have a nation of optimally functioning adults tomorrow, we must take care of our children today.

Cordially,

Patricia Pruden Mohr

Patricia Pruden Mohr
Administrator
Preschool and Parenting Programs

PPM:dv

To Whom It May Concern

I am a 24 year old mother of 3 young children ages 6, 5, and 2 yrs old who attend Fairgrove Child Care Center. And the new federal cut backs have hurt my family. I have lost my AFDC and only have my check to live on. I do not qualify for foods stamps because my salary is $1,040 dollars but my take home pay ranges from $666 dollars to $680.. I have to pay rent of 236.00 dollars. Luckly for me after waiting for 5 years, I have a section 8 housing authority apt. Others have to pay 400.00 or more. I have to buy groceries which range 150.00 to 200.00 dollars. I have to buy gas for the car to be able to go to work. I work apromx. 47 miles round trip, an average of $100.00 to 132.00 month in gas. I have to pay car insurance of $43.00 a month. Because of not having my AFDC, I am having to file bankrupcy. Because its either pay my bills or feed my family, and I can't see not feeding my children. Also I have to make a car payment of $167.00. A total of bills that I must keep to servive is approx. 758.00 So how am I to make $680.00 last into 758.00. There is just no way I Can't.

How am I to servive !!!

And if I lose my child care where will I get 300.00 or more to pay for a baby sitter?? If that comes to that I'll have no choice to do anything, because I won't be able to afford anything. The only option left to me would be quit work and go back on AFDC. And that defeats myself, because thats the reason why I went to work in the first place, to get off of AFDC.

Then it also defeats every plan I used in getting to be able to go to work. I went to school, to improve myself, I have the child care centers to help poor people who are trying desparately to make a living for themselves and there families. These at leaset giver the parent the opportunity to feel a sense of worth. And people need to be able to say I'm pulling my own weight, to have some pride. But mist important to servive.

Please help keep the child care centers oprn for me and all the other families in the same condition.

Sincerly yours

Paula Oliver
1173 Fickewirth St.
La Puente, Calif.

STATEMENT OF NORBERT A. HONKAMP, SACRAMENTO, CALIF.

My name is Norbert A. Honkamp. I am retired from the Federal Service.

The Preamble to the Constitution of the U.S. proclaims, among other things, that the very reason for the existence of government is to promote the general welfare--i.e., the common good. Today this concept, in my judgment, is being overlooked or ignored by the present administration because of its excessive budget and tax cuts, which are heavily weighted to benefit the wealthy and big business interests. Therefore, as this administration smybolizes more clearly that it is " a government of the rich, by the rich and for the rich," it becomes increasingly under suspicion and distrust by the common man. As noted in a front page article in The Sacramento Bee, dated November 8, 1981, the elderly are close to being "scared to death," and cannot help but wonder and ask themselves what else is going to happen to them under Ronald Reagan.

As stated, I am retired from the Federal Service and, therefore, receive a basic monthly annuity including periodic cost of living increases, better known as COLAs (cost of living adjustments). In the past few years, these COLAs have undergone reduction and just recently have been reduced from every six months to once a year. And, now, there is talk coming out of Washington of further cuts in federal pensions. To the best of my knowledge, the average federal retiree receives a little over $11,000 per year--an amount slightly above the poverty level, which I understand is about $9,500 a year. These cost of living adjustments, therefore, are the life blood for the vast majority of retired federal employees.

In my own case, I depend nearly totally on my retirement pay. I do not own a house; I rent and my rent is increased annually. Having spent approximately 31 years in the Federal Service, I will not be eligible to receive social security payments at age 65. I am not a double-dipper, and my expenses increase--just like everyone else's--in line with the rise in inflation. Consequently, continued periodic or annual COL adjustments are extremely important and essential to me. It should be noted, furthermore, that federal retirement pay, unlike social security, is fully taxable income.

In view of the foregoing, I want to voice my strong opposition to additional cuts in social service and entitlement programs. The rich and big business interests of this country must also assume their rightful responsibilities for promoting the common good. In this regard, I fully agree with Senator William V. Roth, R-Del, of Kemp-Roth tax fame, who recently stated--as reported in the San Francisco Chronicle (Jan. 4, '82)--that President Reagan should not try to balance the 1983 budget "on the backs of the poor and the elderly." And, to that I would like to add, "and on the backs of retired federal employees."

In conclusion, I suggest that serious consideration be given to the comments contained in the attached Sacramento Bee editorial dated January 18, 1982. After all is said and done, maybe it is time to scrap the President's supply-side economic experiment.

Thank you very much.

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COMMITTEE ON
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WAYS AND MEANS

February 1, 1982

Ways and Means Committee,
U. S. House of Representatives
Washington D. C.

Dear Committee Members:

I am writing as a concerned citizen and member of the staff of Information and Referral to express my concern with the impact that the Federal Budget cuts have had on services for elderly individuals in the Area 4 service area of the Department of Aging in Sacramento.

Since we work with the senior citizens, I am well aware of cases where cuts have had a detrimental effect. Volunteer assistance, though good, does not fill the gap left with the CETA cuts, for example. Here in Placer County, and right here at our I & R center, we hear about the impact directly.

I urge you to do what you can to restore funds so that programs can be provided for transportation, health care and nutrition for the elderly.

I am enclosing one of our brochures, to give you some idea of the services we provide to county residents.

Very sincerely,

Kitty Hollitz

Kitty Hollitz,
Information and Referral

350 NEVADA STREET / AUBURN, CALIFORNIA 95603

Statement of Willie Mays, President; Elizabeth Stanley, Education Committee Chairperson; and Roy Bertuccelli, Education Committee Co-Chairperson, International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, UAW, Local 1364

The recent cutbacks in Employment Services funding, and the raising of the unemployment insurance extension trigger come at a time when unemployment is higher than anytime since the Great Depression in this country. In Alameda County, California, over 10,000 workers in the transportation industry have lost their jobs due to plant closures and lay-offs since January 1, 1979. These include:

Mack Truck	Hayward	Closed	1400 workers
Peterbilt	Newark	Lay Off	1000 workers
Ford Motor Co.*	Milpitas	Lay Off	2300 workers
General Motors Assembly Division**	Fremont	Lay Off	5000 workers
GM Parts and GM Truck and Coach	Oakland	Closed	450 workers
Caterpillar	San Leandro	Lay Off	600 workers

Efforts to assist these displaced workers in finding jobs and retraining are severely hampered by the cutbacks California Employment Development Department has been forced to institute in its Employment Services, due to slashing of the federal funding.

---

*Ford Motor Company in Milpitas is located in Santa Clara County, but approximately 30% of its laid off employes live in Alameda County.

**It is assumed that most autoworkers will receive 90% of their pay for one year after lay-off. However, this depends on the level of the UAW-GM SUB fund, which is getting low due to the many autoworkers laid off at GM plants nation-wide. Those employes with less than 10 years seniority are not guaranteed SUB. Those with 10-20 years are guaranteed SUB for 6 months; those with over 20 years are guaranteed SUB for one year.

For example, through the joint efforts of community, labor, business, and government groups in Southern Alameda County, a Re-Employment Center was set up to assist the 1400 workers laid off by GM Fremont last October. EDD staff was allocated from the Fremont office to provide needed services. Community college and Adult School personnel provided counselling, and some retraining and educational opportunities for the workers.

UAW Local 1364 provided volunteers and obtained the part-time services of a stress counsellor. The Alameda County Board of Supervisors donated space rent and utilities-free for 6 months for the Center. After the first 1½ months of operation, the Center staff and volunteers were able to place 100 people in jobs, and another 100 in training. This saved $26,000 per week in unemployment insurance payments.

However, when Employment Services funds were curtailed, the Center staff started working part-time, and finally was forced to shut down.*** This impaired the effectiveness of the program, and confused the many workers who had started using the Center in their search for jobs and retraining.

Finding a job in the already depressed job market requires more time and resourcefulness than ever. The cutting of the TRA program and the raising of the national trigger for unemployment insurance extension deprives workers who have worked long and hard, paying taxes into the system, from taking advantage of the benefits they earned and desperately need.

***The Center has re-opened with smaller staff recently, thanks to help from the City of Fremont. However, its status remains shaky; though its services are needed now more than ever, because another 1900 workers were laid off indefinitely from the GM Fremont plant on January 14, 1982.

For example, many workers need retraining and upgrading of their existing skills in order to qualify for the new jobs created by changing technology. Yet, if they have no source of income and cannot meet their mortgage and rental payments, their car notes, their food bills, they cannot afford to retrain. In many cases, 6 months is not enough time to complete a training program. The TRA program, and the emergency extensions when coupled with state programs allowing retraining and providing specific training opportunities would allow workers to remain productive members of our society.

If there are no remedies to the above described situation, the cost -- in community unrest, increased physical and mental health problems, lowered consumer purchasing power, etc -- will be enormous.

We urge the House Ways and Means Committee to recommend the reversal of these cuts, and to start helping outline a program that will truly re-industrialize America and put its people back to work. Thank you for the opportunity to contribute testimony on this important matter.

January 17, 1982

I pray that this written testimony be read into the impact of studies being done on the administration's budget cuts.

Being a recipient of Aid to Families with Dependent Children the following changes in the AFDC social service program are affecting the recipients of this program.

1. Work incentives to get off of AFDC are being drastically cuts. With the lose of the 30 and 1/3 in budget computation will make the possibility or reality of working hard for many clients in Mendocino County. To get a realistic view of this problem I suggest that The Committee on Ways and Means look at this problem in April 1982 or later when recipients will be noticing the effect.
   I have been employed part time for the past two years. In January 1982 I received a notice from the welfare department that my AFDC grant would not change for the month. When I asked them what my AFDC grant would be with the implementation of the new regulations they would not respond. I am now receiving $354.00 a month in benefits. With the implemmntation of the above regulation I would receive$323.00 a month in AFDC benefits. I will then be living on $20.00 less a month which I am very dependent on now as my AFDC grant does not cover all of my basis needs.

2. The Mendocino Coastal Health Project has been closed down in Mendocino, California.
   The Coast House an alchol and drug recovery drop-in center in Fort Bragg has also been closed down to lose of funds.
   Such closure of these places means that people who need such services will not be able to receive the help they need.

3. Employment opportunities are very limited in this area. There are not many jobs available with which a wage earner can support their family on.

4. Realistic work realated and childcare expenses should be considered in AFDC budget computations. In Mendocino County many residents have to travel a considerable distance to get to places of employment. In my case to find work may require traveling a distance of 66 miles round trip.

5. Having the opportunity to attend college have given me the chance to improve my life.

6. Supplemental payments that have been cut out of the AFDC program has created hardships on AFDC recipients. What does a person do when they can't pay their rent, feed their children, keep warm, provide clothing and medical care? Of course one can say get a job but what if you can'tafford clothes to look for work, pay a babysitter,

purchase transportation to go to work with. Mendocino County does not have mass transit transportation.

7. Many people have become dependent of various social service programs. There is not enough support with in the private sector to cover their needs.

8. I believe that the Federal Government should really listen to the state and the voices of the people within the state.

9. I suggest that if anymore budget cuts are to be made they should be taken out of the defense program. Instead of more bombs and weapons to destroy ourselves we should be working on the problems that affect us all. These problems not only affect the poor but the rich as well. We are all in this together and it is time now we all start to work together if this planet is to survive.

Thank you.

Joy MacGregor
C/O Know Your Rights
P.O. Box 7
Elk, California 95432

OFFICE OF THE LOS ANGELES COUNTY SUPERINTENDENT OF SCHOOLS

STUART E. GOTHOLD, *Superintendent*

January 19, 1982

COMMITTEE ON
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WAYS AND MEANS

Mr. John J. Salmon, Chief Counsel
Committee on Ways and Means
1102 Longworth H.O.B.
Washington, D.C. 20515

Dear Mr. Salmon:

The following is in reply to your request for testimony on specific benefits of Child Protective Services and the disastrous effect on individuals and families I feel would ensue when these critical services are cut.

Even though the federal cutbacks in Title XX have not yet hit California with full force, there have been sufficient significant changes in the Child Protective Service at DPSS to cause alarm and concern as to the damages to that program. So far there have been cutbacks and transfers of staff out of Child Protective Services, having a very meager staff to handle reports of suspected abuse for investigation, new court cases and those still under court protection. In one district which had five units of workers, there are now only two to handle all cases. It must be recognized that due to all the cuts to affect welfare, medical and food stamps, with unemployment on the rise, and the general chaos of a depression, there is bound to be an increase in tension among families affected and a resultant increase in violence in the home.

As a former DPSS employee who, as a supervisor, handled these units when we took over from Probation. I have deep concer that with cutbacks, it will be impossible to do the kind of preventive and supervisory jobs in the area of help to families who abuse that we have reached over many years. As Social Worker consultant to Los Angeles County Schools Head Start/State Preschool social work staff, I find my staff has already been told by DPSS staff when they have called with suspected abuse, that it is not possible to investigate unless the situation is serious. If not caught at the start such a situation could result in a dead or maimed for life child, as has frequently happened in years past.

Child Protective Services, hot lines, cooperation with police, sheriffs and other helping agencies, awareness and concern of the recently awakened public--all things we have reached after years of hard work, will be of no value. These advances have just reached the point where prevention, reduction of the trauma of abuse which wrecks children's lives, decrease in the perpetuation of violence in upcoming families, will be lost and we will be returning to the middle ages in this problem.

I sincerely hope this may help in limiting cuts in the essential area of Childrens Protective Services.

Sincerely,

Ruth Schiller

Older Women's League

3800 Harrison Street, Oakland, CA 94611 • (415)658-0141

NATIONAL OWL AGENDA

Focus the sun's rays through a magnifying glass and you can start a fire. That's what we must do. To prove our clout - to ourselves and to policy makers - we must select specific issues, develop an effective strategy, and concentrate the heat until the job is done. The National OWL Agenda is that magnifying glass. Three issues have been selected, each of which is vital and will raise consciousness regarding the plight of older women. Each can be a handle to mobilize large numbers of women to work in their own self-interests. These three issues will comprise the national objectives for the first two years.

Access to Health Care Insurance

Older women under 65 who are no longer dependents often find health insurance impossible to buy, with exclusions for "existing conditions", or else so expensive that they can't afford it. Because access to group health insurance is tied to employment, homemakers are severly disadvantaged when they are widowed or divorced.

States regulate private insurance carriers, and some states require a "conversion privilege" for former dependents, permitting the group member to "convert" to an individual policy without a medical examination. All of these conversion bills have weaknesses and some are of little value. The typical conversion policy provides limited benefits and is very expensive. OWL will prepare a model conversion bill for introduction into state legislatures to provide a vehicle for bringing the problem older women face into the limelight. Here are objectives to be incorporated into such a model state bill:

1. All group health plans should offer conversion rights to persons leaving the group, including widows, divorced wives and dependent children.

2. The severed dependent should remain a member of the group, at group premium rates, for at least one year.

3. The conversion policy should contain benefits equal to the group plan, with such provisions updated when the group plan is updated.

4. Premium costs should not exceed group premium rates.

5. Premium rates should not be segregated by sex.

In addition to the model state bill, OWL will research other ways to implement these goals, including possible amendments of state insurance statutes, federal pension amendments or employer regulation in federal statutes.

Social Security

A retirement income crisis already affects millions of older women and threatens to overwhelm many more. Caught between the built-in inequities of the system and proposed reductions of existing benefits, older women must choose their strategies carefully and build strong alliances. OWL should be in the forefront of the debate on long range changes in social security to provide greater equity for women, while at the same time protecting benefits currently available. To implement this objective, the OWL National Office, with the help of OWL's Educational Fund, will provide discussion materials and Action Alerts in response to events as they occur.

Pension Rights

Pension discrimination follows a woman both in her roles as homemaker and employee. If marriage is a partnership, the person at home who cares for the family and raises children earns a pension as much as the partner with a pay check. At present, divorced wives of government workers, railroad workers, military wives, foreign service wives -- in other words, in all public pension programs, these women are left stranded. Federal legislation has been introduced as a first step toward rectifying these inequities. OWL will work in support of such legislation, and will provide whatever materials are needed to work effectively for their passage, as well as to address injustices for women in private pension policy.

. . . .

The common threads of these three issues are: recognition of the value of women's work - paid or unpaid, focus upon the economic plight of women in later years, and attack upon inequities inherent in public policy. Equal treatment of unequals is not equality! These issues can forge a link between the women's movement and aging activism. They can provide the common agenda to make OWL fly.

SACRAMENTO, CALIF., *January 18, 1982.*

Hon. DAN ROSTENKOWSKI,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR SIR: I am one of the women who fell right through the "safety net." I receive no Social Security nor does my husband. After 37 years of marriage, 6 children and 16 grandchildren, my husband abandoned me.

He is a Civilian Federal Civil Service retiree receiving over $2,000.00 per month retirement. He moved to Oregon 3 yrs. after his retirement and has sued me for divorce. I have received not one cent of support from him for over one year. Should he receive a final divorce decree I will have no income, no home, no medical coverage and no survivor annuity. I am not alone, many women are in the same dire straits.

As a registered voter for my whole life, since 21 yrs., I am deeply concerned about health care for children, women, older women and all those who are handicapped (as I am) unable to support themselves or pay for hospitalization insurance if we could qualify for it.

Sincerely,

MRS. EARL M. (AUDREY G.) FALES,
Vice President, Sacramento Chapter O.W.L.

FOLSOM, CALIF., *January 16, 1982.*

Hon. DAN ROSTENKOWSKI,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR SIR: My concern is for health care that will keep me well and also supply my needs for maintaining the kind of health where I can work.

I am an older woman whose interest is for all older women.

I will be looking at what you do in this area.

Sincerely,

LORETTA CRANSTON.

SACRAMENTO, CALIF., *January 16, 1982.*

Hon. DAN ROSTENKOWSKI,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

HON. DAN ROSTENKOWSKI: I wish to protest the proposed budget cuts in the areas of older women's concerns—especially in the area of health care for older women. This concern is for the quality as well as the quantity of care—as well as discrimination in the area of health insurance to older women.

Sincerely,

E. P. BENNETT, *Member, O.W.L.*

SACRAMENTO, CALIF., *January 16, 1982.*

Hon. DAN ROSTENKOWSKI,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

HON. DAN ROSTENKOWSKI: I support legislation that enables older women to have access to needed health care, both in quality and scope of benefits.

PEARL S. ASARO,
Taxpayer, Member of O.W.L.

SACRAMENTO, CALIF., *January 16, 1982.*

Hon. DAN ROSTENKOWSKI,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR SIR: I am concerned about the lack of compassion of health concerns toward older women either as a widow or divorced. To lose my health care when I will really need it is scary.

I am 57 now. Your help will be appreciated.

As a member of:

Old Women's League I am learning of a lot of unfair discrimination towards older persons.

Thanking you for your interest.

MRS. HELEN V. HUTCHISON.

SACRAMENTO, CALIF.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR SIR: To save money and help balance the Federal budget and lessen expansion of the national debt, I strongly urge you to strengthen support for preventive services such as In Home Supportive Services (IHSS).

An ounce of prevention is worth a pound of cure and this is certainly true in this case. With IHSS, a person at risk of institutionalization can often continue indefinitely at home. Nursing homes cost three times as much as IHSS and acute hospital care costs continue to soar toward the stratosphere.

I have a friend who gets IHSS. Without it, because she has no close relatives to take care of her, she would certainly have to go to a nursing home. She has a bit of social security and is also on SSI with medicare and medical. ISHH costs us taxpayers far less than would the higher level of care.

Sincerely,

MARJORIE P. WADE,
Taxpayer and Voter.

Also member of: Sacramento County Commission on Aging, Gray Panthers, Older Women's League, California Senior Legislature.

SACRAMENTO, CALIF.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

SIR: I oppose cuts in aid for handicapped children and adults.

I oppose cuts in health care support especially for older women.

I support legislation that helps older women maintain optimum health.

I am concerned about quality as well as access to health care.

Sincerely,

MILDRED E. PERRY.

RIO LINDA, CALIF.

Hon. DAN ROSTENKOWSKI,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR SIR: I am interested in preserving my quality as well as quantity of life. I'm concerned about proposed cuts that will reduce accessibility of adequate health care for older women, veterans, and handicapped of all ages.

I will continue to watch which representatives favor or deny these rights by their voting record.

THERESA JOHNSON,
Taxpayer, Voter, Mother of 9.

Sacremento, Calif., January 16, 1982.

Hon. **Dan Rostenkowski**,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

Accessibility of health care for older women who are not eligible for medicare is an issue that needs examining. We are discriminated against in all areas of health care.

Also, I am incensed about the cutbacks and the proposed reductions in veterans health care for those over 65 years old.

Older voters are a growing force in the political arena and you and your committee need to work with and for us.

Yours truly,

Wilhelmena Henderson.

Carmichael, Calif., *January 16, 1982.*

Hon. **Dan Rostenkowski**,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

I am concerned about the cuts being considered whether they involve handicapped children who are our future generation or whether they concern older adults—welfare or whatever—The people are not concerned about what the older persons needs are on medicare health insurance etc.—these are the people that founded our society and have a definite interest in all matters being considered on the current agenda and I am observing these things going on in Washington, D.C. and I am relaying these thoughts to my Congressman and representatives that I feel that the older persons and the needy and AFDC people are being ignored.

Betty J. Mynoott,
Member O.W.L., Taxpayer.

Carmichael, Calif.

Hon. **Dan Rostenkowski**,
Committee on Ways and Means,
House of Representatives, Washington D.C.

Gentlemen: I am deeply concerned about pending legislation affecting health care insurance of women, minorities and the aged.

I am closely watching the results of the legislation passed by you and my elected official.

Respectfully,

Mary A. Hoisington,
A Taxpayer.

Carmichael, Calif., *January 16, 1982.*

Hon. **Dan Rostenkowski**,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

Dear Sir: I urge you to consider the impact of budget cuts and revisions on the welfare of the older woman. There are a number of women who are inadequately provided for by a pension plan or a health care plan. Many older women find themselves without financial support, and with limited employment prospects.

I support legislation that will improve the situation of older women.

Sincerely,

Dorothy Seherer.

Sacramento, Calif., *January 16, 1982.*

Chairman **Dan Rostenkowski**,
Committee on Ways and Means,
House of Representatives, Washington, D.C.

Hon. Dan Rostenkowski: As evidence mounts to prove the ineffectiveness of the Presidents' plan for economic stability for the majority of the citizens, I urge you to give serious consideration to the need to preserve programs that serve those who are most vulnerable in hard economic times. We have not witnessed a rush on the part of the private sector to help minorities, women, the elderly and the disabled. In particular they have need of housing and decent medical care and these essentials are becoming increasingly beyond their reach. It is incumbent upon elected representatives to consider these needs when budget priorities are established.

Sincerely yours,

JOHN MCFARLAND.

CITRUS HEIGHTS, CALIF.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

As an older woman (taxpayer—federal, state, county) I resent the suggestions of cuts in the budget that would affect older women. I support any effort that would particularly help older women in (1) the area of non-discriminatory affordable health insurance for non-medicare eligible people (both men and women) divorced, widowed, unemployed (but not necessarily destitute) (2) catastrophic health insurance coverage (govt. controlled) that avoids insurance company "denial of claim" (3) handicapped and disabled need more assistance not less!

NAOMI SMITH.

ORANGEVALE, CALIF., *January 16, 1982.*

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR SIR: I am very much in favor of improving health care benefits for older women, widows, divorced, etc.

As a member of the Older Womens League I have been made aware of all the potential losses and discrimination which we face.

As a taxpayer and registered voter I implore you to do your best in our interest. Thank you.

LILLION C. PACH,
OWL Sacramento Chapter.

[A report from the White House Mini-Conference on Older Women, "Growing Numbers, Growing Force," has been retained in the committee files.]

STATEMENT OF SENATOR DAVID ROBERTI, PRESIDENT PRO TEMPORE, CALIFORNIA STATE SENATE

Mr. Chairman, Members of the Committee, Ladies and Gentlemen. Thank you for this opportunity to address you on the impact of the federal budget cuts on California. This is a matter of grave importance to the 23 million people who live in our state.

President Reagan's economic policies and federal spending practices have spelled disaster for millions of Americans and hundreds of thousands of Californians. That was the conclusion my colleagues and I drew after five days of special State Senate hearings into this matter last October. Expert testimony at those hearings made the message of the Reagan policies crystal clear: When Washington cuts thoughtlessly, California bleeds.

Partly as a result of the Reagan Administration economic policies, California's economy is in a tailspin. High loan interest rates, high inflation, and high unemployment have combined to give us what even the Reagan Administration admits is a recession. And this recession comes on the heels of federal policies which have cut critical services to low-income Californians and the elderly, has put a halt to many public transit projects, has greatly diminished the amount of affordable housing available to average Californians, has closed health clinics, and has even slashed projects for hemophilia victims.

Because the Reagan Administration has failed to live up to its campaign pledge to 'get the economy moving,' state revenues from sales taxes are way down. They are down because business is grinding to a halt and because unemployed workers pay little or no income tax, and are in no position to buy goods which produce higher sales tax revenues.

THE SITUATION

The enactment of the omnibus Reconciliation Act will have substantial impacts on the people of California and their state and local governments. At this time it is impossible to fully assess these impacts because the President has announced his belief that further reductions are needed even though some of the details of the current cuts are still unclear. What is known is that California will, on an annualized basis, feel the impact of the reduction of over $1 Billion of federal funds. Although California will probably benefit from increases in defense spending and the federal tax cuts, it should be noted that these benefits will not be felt until the 1982-83 fiscal year and beyond. The federal economic strategy is, at best, untried and relies on impacts which are several years into the future.

Before we look at specific federal cutbacks I will describe the context within which these cuts are taking place. It is generally held that the deepening recession will sharply curtail economic growth during 1982.

The impact will be felt in California, but not to the same extent as the rest of the nation. According to the State Department of Finance, recovery during the second half of 1982 will result in a 1 percent employment gain for the year in California. Personal income is expected to be up 10.3 percent for 1982, the slowest rate of increase since 1975 and these numbers are very optimistic.

Future improvement in 1983 will lead to economic expansion, with the number of jobs up 4.1 percent and personal income rising by 11.5 percent.

Taxable sales, in real terms, are expected to grow a moderate 1.7 percent during 1982, with no signs of strength occuring until mid-1982. Consumer spending should pick up substantially during the latter half of 1982 and throughout 1983 as the economy gains momentum and interest rates ease. Improved spending will benefit the crucial auto and housing sectors in particular.

Even with these minor gains, the current recession will have a major long term impact on state revenues. For 1981-82 total General Fund income under existing law are expected to be $21 billion, or $826 million below the estimate that was used when the budget was enacted.

The Governor acted on October 9, 1981, signing an Executive Order mandating the following measures to keep the budget in balance:

- a 2 percent reduction of current State operations budgets,
- a hold on uncommitted school construction funds,
- a deferral of selected public works projects, and
- a hold on miscellaneous carryover funds.

The recession continues to affect the State in 1982-83. General Fund for the year under existing law are estimated at $22.4 billion. To provide a "current service budget" that includes increases from 1981-82 for normal workload and inflation only would cost $24.6 billion.

The following is proposed to balance the budget and close the $2.1 billion gap between revenues and a current service budget:

$1.335 billion in budget cuts have been made in the 1982-83 Budget. The major reductions are:

Local Government	$450 million
Cost of Living Adjustments	400
Medi-Cal	170
Education, k-12	150
State Operations	115
Refundable Energy Credits	25
Education-Community Colleges	25

There is no question that state and local government programs and operations will continue to be reduced. The backdrop against which the federal cuts are reflected only make this picture worse.

The following is a list of the current year federal budget cuts and how they affect state and local government services and programs.

Employment and Economic Development

Over 32,500 CETA workers have lost public service jobs, with an attendant loss of the services performed for the public.

37,000 veterans and structurally unemployed have lost extended unemployment benefits.

CETA job training programs have been cut by 14% and federal assistance to vocational education by 22%. Over 30,000 disadvantaged youth will be cut from these programs.

Nearly $100 million in federal economic and business development funds have been lost because of cutbacks in EDA, SBA, and UDAG and regulatory changes that will make SBA loans less attractive to banks.

Education

Funds for school desegregation in Los Angeles, San Diego, Stockton, Pasadena, Long Beach, San Francisco, and San Bernardino have been folded into the Education Block Grant, which includes an overall cut of 39% from FFY 80 funding levels.

100,000 students have received aid through the student aid and social security programs. This has affected both the students and universities already faced with declining enrollments and will come at a time when demand for university-trained workers is particularly acute. . .

Social Welfare

Social services for the aged, blind, disabled, and children have been cut 20%, which will be particularly devastating in rural and small counties. Major services affected are protective services for children and in-home supportive services, where burdens are simply shifted to other state and local programs.

42,500 "working poor" families have been eliminated from AFDC and another 61,000 will face cuts in payments, unless the state assumes full funding responsibility.

Health and Nutrition

Many children from "near poor" and "working poor" families have become ineligible for subsidized school lunches.

16,500 California families just above the poverty line have lost food stamp eligibility.

Cutbacks in community health centers, mental health centers, and crippled children's hospitals have reduced health care for the poor and disabled.

In an effort to preserve as many services as possible, public hospitals are likely to eliminate some very expensive services, such as neo-natal care, open-heart surgery, and end-stage renal dialysis, leading to higher mortality rates for poor people in need of special care.

Cuts in family planning services will lead to more unwanted pregnancies, greater demand for abortions, and more pregnancy complications, particularly for poor women.

Housing

7,000 - 10,000 fewer new subsidized rental housing units will be built; this alone will reduce housing construction in California by over $300 million.

1.4 million California households will be removed from federal rental housing assistance eligibility because of changes in income cutoffs.

Poor people receiving federal housing subsidies will pay a proportionally higher share of their income for housing; generally the same people will be hurt by cuts in public transportation, health, food stamps, and social services.

Transportation

Transit Capital Grants cuts will delay or cancel the building of the Los Angeles People Mover and the Wilshire Rail Line.

The current administration intends to phase out transit operating subsidies by 1985. This would demand fare increases of 25-40% and/or service cuts, and would particularly hurt small city and rural systems. Most affected would be school children, the elderly, the poor, and the handicapped.

The current administration plans by 1985 to eliminate Amtrak routes that don't pay 50% of expenses from fares; this could eliminate the San Joaquin and L.A. to New Orleans routes. In 1982, however, a new route (Sacramento to Los Angeles) will be added.

Administrative policy changes make doubtful plans to deepen the Sacramento ship channel, dredge Oakland harbor, and build a breakwater in San Francisco.

Energy

A 60% cut in funds available to the Solar Energy and Conservation Bank will substantially reduce opportunities for California businesses to invest in solar energy commercialization ventures. However, because of the Brown Administration's activity in alternative energy development, the impacts will be reduced in California.

Solar and conservation programs of the Energy Commission will be sharply curtailed.

DOE's Schools and Hospitals program has been cut, thereby reducing opportunities to reduce utility costs in public and non-profit institutions.

Only minor economic gains will be felt in California because of expansion of nuclear energy programs and continuation of the synfuels program.

Natural Resources

Up to 400 communities will be affected by the freeze and budget cuts for wastewater treatment facilities; major projects in San Francisco, Los Angeles, and San Jose will be jeopardized and costs of other projects will be higher because of the delay.

Elimination of park acquisition funds will endanger plans to expand the Santa Monica Mountains Recreation Area, Golden Gate Recreation Area, Redwood National Park, and Channel Islands National Park and to purchase land and develop urban parks that primarily serve low-income residents.

# # #

Summary of Proposed Reductions*
1981-82

General Program Area	Estimated Direct Loss in Federal Funds To: State Government	Local Government	Individuals	Potential Savings to the State
1. General Government	$ 1,597,889	$ 400,000	$ 1,800,000	None
2. Business, Transportation and Housing	4,678,028	85,605,000 to 110,455,000	Unknown	None
3. Resources	25,243,951	298,286,874	Unknown	None
4. Health	47,000,000	17,700,000	Unknown	None
5. Social Services	60,900,000	1,100,000	114,600,000	$78,400,000
6. Employment and Manpower	80,760,658 to 88,560,658	302,116,193	182,072,606	None
7. K-12 Education	9,000,000	71,200,000	Unknown	None
8. Higher Education	2,000,000	700,000	28,300,000	None
9. Executive	25,000	5,500,000	2,000,000 to 3,200,000	None
Totals	$231,205,526 to 239,005,526	$782,608,067 to 807,458,067	$328,772,606 to 329,972,606	$78,400,000

The above totals are the minimum effect on state and local programs and individuals.

*Legislative Analyst

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
1619 N STREET, P.O. BOX 2271
SACRAMENTO, CALIFORNIA 95810
TELEPHONE (916) 454-8671

E. T. GIUGNI
Superintendent

January 20, 1982

COMMITTEE ON
RECEIVED
JAN 25 1982
WAYS AND MEANS

Mr. John Salmon, General Counsel
Committee on Ways and Means
Washington, D.C. 20515

Dear Mr. Salmon:

The Sacramento City Unified School District would like to present the following written testimony for the Committee on Ways and Means to consider, in addition to the verbal presentations that were given by other individuals, groups, or agencies at the hearing in Sacramento, California, on January 18, 1982. Members of the board and the staff of the Sacramento City Unified School District are very concerned that additional cuts in funding at the federal level will seriously impair the quality of education in our district and throughout the State of California. They feel that committee members should be aware of the probable impact, particularly in the following areas:

A. Nutrition Programs

Funding cuts by federal and state actions this past year resulted in a loss of $604,261 to our feeding programs. Reimbursements were reduced most significantly for the paying student. Reimbursement for a paid lunch was cut in half by federal action and completely eliminated by our state legislature. The same cuts applied to our National Breakfast program. Surplus commodity food distribution funding was cut by 30 percent for the lunch program and completely eliminated for the breakfast program.

Because of the large surplus commodity pipeline, and because we have increased the student cost by 30 percent, we will be able to remain self-sustaining if no further cuts occur.

Reportedly, the federal government is ready to propose still more reductions in child feeding programs. The administration is expected to urge a two- or three-year phaseout of cash subsidies for meals served by paying students. Under a two-year plan, the federal reimbursement rate would be cut by 50 percent in July 1982, with no cash payments until after July 1983. If this occurs, each cut would cost our program approximately $70,000 per year.

Even though it may be possible to absorb the loss during the first year (providing state funds are not eroded), the second year of such a proposed cut would pose tremendous problems to all child nutrition programs.

B. Bilingual Education

The proposed reduction of bilingual education funds will severely limit the level of services being provided to the large number of Southeast Asian children and adults now in our schools. Funds for this program should at least match the national immigration policy to insure a minimum level of language instruction.

Even at the present time, we are unable to meet the needs of these people. Additional loss of funding would impose severe hardships on this program.

C. Indian Education

Any further reduction in Indian Education funds will virtually eliminate the supplementary program being offered. Reduced funds will mean a loss in program personnel to the point where the program will have little meaning to the students.

D. Vocational Education

Reductions in basic vocational education funds will handicap district efforts to maintain equipment; limit services to disadvantaged and handicapped; and curtail staff development activities necessary to keep teachers and counselors abreast of changing needs in the world of work.

Funding under the CETA program has already been reduced by 50 percent, resulting in less opportunity for young people to have on-the-job learning experiences. Additional cuts could result in total elimination of the program.

In addition, if funds are not available for special projects (where districts can apply on a competitive basis), we will face severe reductions in the areas of occupational guidance, counseling, and vocational assessment.

E. Title I Program

Based on estimates that we have received, it is possible that our district will lose approximately $372,000 (10 percent reduction) in its Title I funding in the 1982-83 school year, and a further projected reduction of 20 percent in the 1983-84 school year, with a projected dollar loss of approximately $670,000. If one were to apply a personnel factor unit cost of $12,000, this would mean that the district would have to lay off 31 full-time equivalent positions in June 1982, and 56 full-time equivalent positions in June 1983. Obviously, the Title I program would lose a great deal of its effectiveness.

Although there are many other areas of concern, those listed above are the most crucial, particularly when you consider that our district serves as an urban center with an ethnic composition of 22.6 percent black, 16.8 percent hispanic, 14.3 percent Asian, 45 percent white, and 1.3 percent Indian, and city unemployment statistics typical of most urban areas.

Your attention to this testimony will be appreciated.

Sincerely,

E. Tom Giugni
Superintendent

ETG:DEW:rk

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

January 19, 1982

Ms. Joann Murphy
Special Assistant to the Speaker
Restored Capitol Building, Room 323
Sacramento, CA 95814

Dear Joann:

In accordance with our conversation regarding Congressman Bob Matsui's special hearing of the Ways and Means Committee in Sacramento, we have attempted to assess the impacts of the Federal Budget cuts upon the services of the Sacramento Housing and Redevelopment Agency.

Federal budgetary cutbacks have already had an impact on most Sacramento Housing and Redevelopment Agency (SHRA) programs. Proposed cutbacks are even more threatening to these programs, which primarily serve the needs of the low-income and elderly of Sacramento City and County. Although all of the details and ramifications of Federal cutbacks and proposed cutbacks are not known at this time, the following is a summary of how reductions in Federal funding affect people serviced by SHRA programs.

1. Community Services

A. Sacramento Elderly Nutrition Program (SENP)

This program provides hot, nutritious lunches to over 975 seniors age 60 and older, five days a week. It delivers more than 140 meals each weekday to low-income, homebound elderly. It also offers social, recreational, education and referral services to senior participants.

Federal cutbacks have had a significant impact upon this program. Cuts already made have eliminated eight full-time CETA Title VI positions valued in wages and benefits of over $118,000 per year. To replace essential driver positions previously filled by CETA employees, five part-time drivers were employed at an annual cost of over $55,000. Furthermore, cuts in funding under Title III-CI (Older Americans Act) for Fiscal Year 1981-82 totaled over $69,000. These funds had been used to provide meals.

Thus, the combined financial impact has been a loss of about $243,000. The impact of this cutback on the operations of the meal program has been major. To maintain service levels, seven full-time positions were eliminated and five were reduced to part-time. Six part-time staff positions were eliminated and two part-time positions were reduced from four to two hours per day. These staff cutbacks resulted in increased workload stress for the remaining staff and the program experienced the largest staff turnover in its history. The impact on the elderly served is clear.

The program now faces proposed additional cuts for Fiscal Year 1983. Under proposed Older Americans Act funding, the Nutrition Program will lose another eight positions and the proposed cuts in Administration on Agency (AOA) funding further threatens this meal service for the elderly.

Exacerbating the problem is the proposed reduction in the food stamp program that will result in increased need for meal service among the very low-income elderly. These cutbacks occur at a time of proposed increases in Medicare-Medicaid and high inflation, which most directly affect the fixed-income elderly.

B. Child Care Centers

The Dos Rios Infant Center and River Oaks Child Care Center currently care for about 80 children daily. The Centers experienced a 28% cutback in staffing due to the loss of CETA funds. Anticipated expansion has been ruled out. Further, due to the discontinuation of the morning nutritious snack provided by funds from the National School Lunch Program, many children attending the Centers do not receive a morning meal.

Future Federal reductions will not affect this program directly because the Child Care program has elected to transfer to a State-funded program. However, as State funds for various family service programs are strained due to future Federal cutbacks, the Child Care Centers may suffer. The importance of these Centers is highlighted as inflation, poor economic conditions, and the rising trend in single, working parent homes create expanded child care needs among the low-income wage earner.

C. Foster Grandparents/Senior Companion Programs

Provides opportunities for about 70 low-income elderly to offer supportive services to over 275 children having exceptional needs. Provides opportunities for about 65 low-income elderly to meet the special needs of 325 disabled/homebound adults in the community.

Cuts in funding under the Senior Community Services Employment Program (SCSEP) will result in a loss of at least one position and proposed cuts in the Administration on Aging funding may result in more. Considering the cost effectiveness and immeasurable benefits of this program, any cutbacks should be resisted.

D. Golden Era Handicrafts Program

This store-front cooperative operation provides an outlet for consigned, handicrafted items created by older adults (55 years and above). It provides an opportunity for senior citizens to supplement their fixed income through the sale of crafts.

Proposed cuts in Older Americans Act funds would eliminate eight positions and Title III proposed cuts will further threaten this program. Cutbacks that affect this important, self-help activity should also be challenged.

II. Housing and Related Programs

A. Section 8 New Construction/Substantial Rehabilitation

The largest proposed cutback will sharply reduce government subsidized housing. It has been reported that the Administration plans to eliminate in Fiscal 1983 and beyond funding for new construction and substantial rehabilitation of subsidized housing. If approved by Congress, this plan will cut off completely future Federal funding for SHRA's Housing Production Division. This Division administers the production and rehabilitation of housing units that are designed for and occupied by, elderly, disabled and low-income tenants at subsidized rents. Over the next three years, this Division has funding to produce over 1,000 units to meet the immediate housing demands and needs of the above tenants. However, it has also been reported that this funding may be partially rescinded.

No federal or state program has been approved to replace this loss of funding for future rental units designed for the elderly, disabled, and low-income population of our community. We have, however, taken the initiative at the local level to recommend redevelopment funds to replace the loss of federal funding for the construction of needed rental units for the low-income disadvantaged.

B. Section 8 Existing Program

This Federal program provides rent subsidies to about 900 low and moderate-income tenants in the community. It has been proposed that this funding be eliminated and replaced by a "voucher" system. However, many aspects of the proposed voucher system has not been articulated, although it apparently will represent a cutback from Section 8 levels of subsidy. Tenant contribution under this new system will be set at 30% (up from the current 25% under Section 8) of cash income plus food stamps (not currently included in income).

C. Public Housing Maintenance

SHRA is currently responsible for maintaining over 2,300 housing units that provide safe and sanitary affordable housing for elderly, disabled and low-income tenants in our community. Cuts of 14.5% have already made in operating subsidies have had a negative impact on maintenance and management operations. Additional cuts, apparently to be made up through rent increases for tenants, may result in a situation of unmet maintenance needs. The need to stay abreast of public housing maintenance is of paramount importance to the community. With the planned addition of hundreds of new Agency-owned units in the next three years, sufficient operating funding will be even more important.

D. Home Repair/Rehabilitation/Retrofitting for the Disabled

Various loans and grants designed for low and moderate income applicants, the elderly, and the disabled, and for housing units located in distressed areas of the community are funded by Community Development Block Grant (CDBG) funds. It has been proposed that CDBG funding be cut by approximately 10%. Affected are several SHRA programs that provide the only source of financing for most of the low-income and elderly who apply for these loans and grants to do essential home repair.

Examples of services provided by this funding are loans and grants to make emergency repairs, to eliminate major health and safety hazards, to construct ramps and grab bars in homes of the disabled, and to ease relocation expenses for individuals displaced due to redevelopment projects. This is compounded by elimination of the Federal 312 Program which provided supplemental rehabilitation loan funds for our blighted communities. The CDBG cuts will be further exacerbated under a proposed 50% reduction in housing loan programs for the elderly and handicapped.

III. SUMMARY

From the above, it is clear that many SHRA activities have been, and will be, affected by reductions in Federal funding of various programs. The overall impact will most seriously be felt by elderly and low-income individuals. The goals of the Federal food, nutrition and housing programs to produce healthy individuals is being undermined by the drastic trend in funding cutbacks for these social services. In the face of high inflation and erosion of fixed incomes, the elderly and others in Federally subsidized housing units will face increased rents (multiplied by the impact of counting food stamps as income). It will be very difficult for the low-income and elderly individual to find affordable, decent housing in the future if proposed reductions are not offset by a workable, well-planned alternative, yet to be articulated.

Compounding the situation are increased health costs to the senior citizen under proposed Medicare changes and reductions in food stamp benefits. Even seemingly benign changes in individual Federal programs, when totaled, will do considerable harm to the well-being of the recipients of program services. Thus, at a time when SHRA programs will be in greater demand, funding will not be increased to keep pace with inflation. Nominal cutbacks will not even reflect the increased costs of food and materials needed to provide SHRA services.

In summary, the City of Sacramento is sympathetic with this administration in its search for economic stability and reduction of inflation. We do not agree as to the manner and nature of the cuts as proposed because they hit harder on those sections of the population that can least afford cutbacks, i.e, the elderly and low-income.

We are hopeful that this information is helpful and constructive in your most important deliberations which are now taking place throughout the country.

Sincerely,

WILLIAM H. EDGAR
Interim Executive Director

WHE/drn
cc: Agency Department Heads/Division Chiefs
SHR Commission
Sacramento County Board of Supervisors
Sacramento City Council
Brian H. Richter, County Executive
Walter J. Slipe, City Manager
Honorable Congressman Robert Matsui
Honorable Congressman Vic Fazio

Task Force
on Economic Justice - UUSC

January 6, 1981

John J. Salmon, Chief Counsel
Committee on Ways & Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Salmon:

Enclosed are three copies of a Report we would appreciate being shared with members of the Ways & Means Committee.

The Report is the result of thinking done by some of the more thoughtful and experienced persons associated with the Unitarian Universalist Society of Sacramento.

I will be prepared to deliver a summary statement at the Hearing, condensing the longer Report which is enclosed. Present in addition to myself will be those more expert and able than I am to answer technical questions which might arise.

The Society in Sacramento plans to build its Sunday morning FORUM and 11 o'clock service around the general subject in which the Ways & Means Committee is interested. It is my hope that Bob Matsui will appear before our FORUM audience. We are attempting right now to reach a member of the Ways & Means Committee, or a Committee Counsel, so that our Sacramento people can hear about the expectations of the Committee, and about some of the humanitarian interests members of the Committee have, at the 11 o'clock service.

Sincerely yours,
Theodore A. Webb
Theodore A. Webb
2212 Ralston Rd.
Sacramento, Ca. 95821

STATEMENT TO FEDERAL WAYS & MEANS COMMITTEE
Unitarian Universalist Service Committee
Task Force on Economic Justice

The Unitarian Universalist Service Committee (UUSC) Task Force on Economic Justice in Sacramento has made a study of the problems of health, welfare, the economy and the politics of poverty for a decade. In the course of its study, the Task Force has been addressed by leaders of the State of California, the County and City of Sacramento, including the State Welfare Director, --the Sacramento County Welfare Director, --economists, --legislators and a federal judge.

Lately, our Task Force has become concerned as we witness Federal, State and County governments shedding responsibility, denying assistance to the needy by using arbitrary definitions of genuine need.

I

Our Task Force understands the Administration's interest in protecting those genuinely in need of help; the "truly needy." What we witness happening in the beginning months of the Administration's program, however, is deprivation on the part of increasing numbers of those who are deserving of help by any human standard of fairness. While the 20 million unemployed do not all need assistance through the government, there are as many as nine million who exist with income below the poverty line. Their health and well-being may be threatened, if not their life, should their meagre income be cut. The welfare system as presently operating, in cutting back fails to take into account:

--The increase in rental costs, with the Administration reducing rent control regulations;

--The increase in heating costs;

--The loss of food stamps to many of the deserving poor;

--Increasing prices of food at the market;

--Soup lines having returned, the hungry are being turned away for lack of food.

A father, unable to find work, upon being deprived of disability benefits, committed suicide, leaving three children.

II

Our UUSC Task Force on Economic Justice is concerned also about the failure of the Administration to observe the "equal protection" clause of the Fourteenth Amendment. Programs are designed and rules construed so as to undermine the intent of the federal government to offer equal protection, and to provide for the welfare of United States citizens. As an instance, block grants are given to States. The federal government at present does not demand an accounting, failing thereby to guarantee that those in need will be provided protection guaranteed under the constitution. The government is derelict in not determing need and gauging the amount of assistance required in the States before distribution of the block grants. There are States in the Union notorious for denying help to the poor. Heretofore, the federal government has established eligibility standards which States must observe or be denied aid.

In addition, it appears to the Task Force on Economic Justice that the "equal protection" clause is nullified in effect as government programs enrich the well-to-do and comfortable while deliberately impoverishing those enduring lower standards of living. The New York TIMES quotes gax experts as saying that the Administration's tax cut is regressive. A family of four with a $15,000 income in 1984 will receive a 2.4% rise in income after taxes. A similar-size family with a $100,000 income will find its spendable income up 6.7%. ...The Sacramento BEE reported that the Reagan economic program means that families with over $50,000 income a year, representing 5% of the population, will get 35% of the personal tax cuts. A family of four, with a taxable income of $25,000 will get an income tax break of $422. next year, partly offset by higher Social Security tax payments.

The Task Force feels that the Reagan economic program is both unfair and ineffectual. It fails to deliver distributive justice. The prognosis for the achievement of its stated goal of reducing inflation and providing more employment is negative.

III

Our Task Force sees in the Administration's program the virtual destruction of a 50-year, gradually developed program of economic safeguards in the areas of health, welfare and education. We suggest that elimination of a program is not in keeping with the best conservative approach to problems confronting society and government. Alterations, reforms, or substitutions, --these, after acknowledging the existence of problems, are manifestations of conservatism at its best in the tradition of conservatives from Edmund Burke to Walter Lippmann. Conservatism retains measures and methods until improved ways are found. We are witnessing instead a *blitzkrieg*, or dismantling, of an entire program.

In way of illustration, the Comprehensive Employment Training Act of 1978 provided $1,100,000* for the economically disadvantaged. In 1982, CETA funding will be less than $205,000,000. The number of those who were employed and paid in California will be reduced to zero in 1982. Those who received assistance in the CETA program in California had an income of less than $6140. for a family of two. The 107,558 belong within the guidelines of the "truly needy."**

IV

We feel the course being followed by the Administration is dangerously provocative. The example of what is happening in Poland should be sufficient to warn our government of the danger any society, including ours, faces as increasing numbers of people become discontented. The riots of the 60s in this country are illustration of what can occur when it is felt by the poor that they are discriminated against because they are poor, --that food, housing and opportunities for improvement of their condition in life are denied them. It is a dangerous mode of accomodating to demands made by those who seek tax cuts, to make life yet more miserable for millions of those deprived of the necessities of food, clothing and housing. Backlash

* 1,110,000,000

** 107,558 held public service jobs in 1980 which affects the middle and upper economic classes is already being experienced. The crime rate is up. The prison population is increasing. (Ironically, the poor if imprisoned have between $16,000 to $20,000 per year spent to keep them locked up.) As more people drop out of the middle class into the lower economic bracket, the danger increases of rebellion or revolution - reminiscent of the Shays Rebellion of 1786, the rebellion of the Regulators in North Carolina in the 1770s, and the Veteran's March on Washington which had to be put down by the Army.

The Census Bureau reports that poverty is on the rise across the nation.

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In light of what has been shown in the foregoing, the Task Force on Economic Justice (UUSC) proposes the following, which are in the nature of recommendations to the Ways & Means Committee.

I

In assemblying material, we confirm to our satisfaction a view we have long held. There is little information distributed to the public having the suppott of research in the social sciences. We believe, therefore, that progress in bringing about economic justice requires that the quality and quantity of scientific research and technological development now undertaken in the physical sciences be supported equally in the social sciences. It becomes increasingly clear that we must build solutions to the problems of society on systematized knowledge in the social sciences derived from observation, study and experimentation. While in a democracy the particular solution chosen will still be made by the people and their representatives, the alternatives from which to choose should as far as possible be founded on the most complete and accurate data obtainable.

We believe and recommend that direct government support of social sciences research and distribution of behavioral social science reports are essential to good democratic government. Such direct support, however, needs to be offset by parallel efforts outside government which criticize official efforts and prevent the monopolization of knowledge. The federal government should require the development of Social Impact Reports for major social legislation comparable to the Environmental Impact Reports for actions affecting the environment.

An example of government help that would support local private action at minimum cost would be to continue to provide start-up funds for local citizen self-help groups similar to the Washington, D.C. Consumer's Checkbook reports developed by a non-profit group. The Checkbook magazine is free of advertising, free of outside influence, dedicated to helping Washington area consumers find the high quality, reasonably price services so important to most consumers.

We repeat our conviction that complete and accurate sociological information including how government decisions are made and their effects on the various groups in our society is essential for the development of the kind of knowledge needed by all citizens for wise and effective social action.

II

Secondly, we call upon this Congressional Committee in its wisdom to consider that:

--In view of the demeaning and dehumanizing implications of welfare; and

--Taking into account the acceptance of entitlements such as Social Security as insurance benefits;

--*Congress study ways and means of replacing current public assistance concepts and procedures with an insurance concept.*

Such a program will dignify those entitled to such benefits. It will reduce public misunderstanding and denigration of entitlements and their beneficiaries.

--*We further recommend that the Congress devise innovative approaches to this problem of welfare stereotyping, and authorize their use through appropriate legislation.*

III

The Task Force sees the federal government as an agency able to achieve for the citizenry a reasonable degree of distributive justice. It is not government within the States, but the federal government which is charged with "insur(ing) domestic tranqility," and "promot(ing) the General Welfare."

We call upon government through this Committee to consider means by which economic justice can be realized through the equitable financing by government, providing for a fair and effective system. Among ways of enhancing funding for the public service program, we recommend to the Ways & Means Committee the adoption and adaptation of the unitary method of apportionment and taxing of income from multinational corporations.

As the Committee is aware, the Comptroller General in a report to the chairman of your Committee indicated that approximately $277½ million is lost annually through inadequate reporting by a small number of corporations checked. (California estimates that about 30% of its corporation tax revenue is attributable to application of the unitary method to world wide operations.)

An article in the December 28, 1981, issue of TAX NOTES states, "that the arm's length approach is theoretically unsuited to the task asked of it." "...It is submitted that unitary apportionment is superior. It would better protect the tax base, (and is) much less open to abuse by taxpayers."

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We are encouraged by the report of Nobel price winner and economist, James Tobin. Dr. Tobin assures us that according to Keynsian economics, redistribution of income and wealth by taxation and transfer is not fatal or damaging to our system. What is unfortunate, as Tobin indicates, is that capital income, in contrast to wage income, is increasingly free of federal tax. The Administration's program, as has been pointed out, is redistributing wealth and power to the wealthy and powerful and their heirs.

APPENDIX

Sacramento Childrens Home
2750 SUTTERVILLE ROAD
TELEPHONE: 452-3981

Helen E. Cowell Childrens Center
2820 14th AVENUE
TELEPHONE: 452-4071

SACRAMENTO, CALIFORNIA 95820

A visit to the Sacramento Childrens Home provides a view of AFDC foster children who are helped with IV-E funds, who probably arrive in the foster care system through Title XX Child Protective Services and whose care is monitored and terminated by Title XX Foster Care Management Services.

California has 28,000 children in foster care - an increase of 2,000 children from a year ago. About 6,000 foster care children are in group homes; about 22,000 are in foster family homes. What type of child cannot be managed in a foster family home?

A small boy nervously walks behind the taller self-assured woman as they enter the waiting room of the Sacramento Childrens Home. He looks like any other shy and appealing seven year old, taking refuge behind the warmth and security of his mother. Except Bobby's appearance reveals a boy whose growth is three years behind schedule, and while he's been depending on this woman for some time now, she is not his mother.

Bobby has been around. Still a child, he has already lived in six different foster home, returning home to his mother three different times. His only consistent parent over the years has been the court. His own mother could not cope with her own son. When she got angry she hit things! One of them was Bobby. So when Bobby was just two years old the court for the first time removed him from his home for his protection.

Bobby is now a dependent child of the Court under the supervision of a placement worker from the County Welfare Department. Bobby's worker is not about to put him into another foster home. She is well aware of Bobby's need for something more - more support, more supervision, more structure, and more help for Bobby. Perhaps then, she feels he can begin to trust others and ultimately himself. That is why the worker is seeking residential treatment for Bobby at the Sacramento Childrens Home.

The Sacramento Childrens Home, a non-profit, charitable corporation, has been serving children since 1867. Founded to care for orphans, it has grown in size and scope to offer services to disturbed children. Today the Home serves 90 children on a seventeen acre residential treatment center located on Sutterville Road, and in group homes throughout the community. These children are some of the 28,000 youngsters in foster care in California. There are 22,000 children in foster homes and 6,000 in group homes, institutions and residential treatment centers.

The Sacramento Childrens Home offers a chance for both the child and the family to make a new beginning. Within the protection and supervision of daily life at the Childrens Home a child has the opportunity to learn new, more appropriate behaviors and recognize that people can act in a fair, predictable, and caring way. Setting limits and expectations form the structure of the program, but assisting the child to develop a sense of trust is the heart of the program. The Home serves children who require more extensive care and supervision than a foster family home can provide.

One staff member coordinates the overall plan for each child. The program is dynamic in helping the child move forward so that he can cope with any eventuality, hopefully returning home to his family. If that is not possible and adoption is not feasible, then an attempt is made to place the child in a permanent foster home.

Education is a vital part of a child's preparation for life. Children requiring "special education" attend a school on the Childrens Home grounds. When able, children go "off grounds" to public schools with the encouragement and support of staff.

Children are generally placed by county welfare or probation departments as ordered by the court. Most of the children come from Sacramento County.

The annual operating expenditures of the Sacramento Childrens Home exceed two million. The Board of Directors and volunteer support groups provide 28 per cent of the operating resources as well as funds for capital improvements and renovation. During 1980-81, voluntary support for the Childrens Home exceeded $560,000. More than 600 volunteers work on behalf of the Home. The remaining 72 per cent of operating funds come from government sources. In addition the physical plant and land are valued in excess of five million, generated solely from charitable sources. At the federal level, Title IV-E of the Social Security Act pays for one-half of the monthly cost of care for a AFDC eligible child in foster care. State general fund revenues pay for 47.5 per cent and county property tax revenues pay for the remainder.

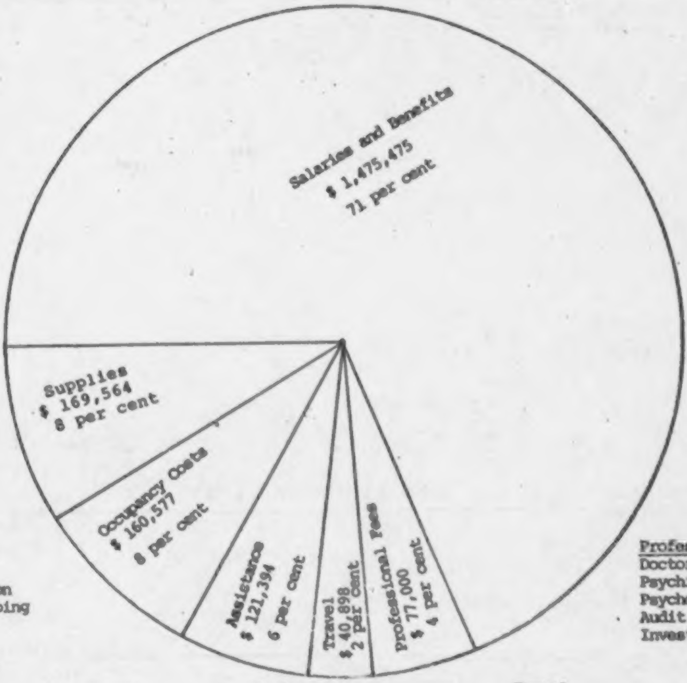
While the Sacramento Childrens Home hopes to increase its private support, any further federal reductions in AFDC Foster Care, Pl 96-272 (The Child Welfare Reform and Adoption Subsidy Act) and Title XX (Social Services) will force the Home to reduce the numbers of children it can serve. In fact, further federal cuts will have a direct negative impact on all 28,000 California children in foster care as well as California's attempt to reduce the number of children in foster care. Title XX, while it does not directly pay for the cost of care, does provide funding for the review of children in foster care and for the response to reports of abuse and neglect.

PROGRAM EXPENDITURES

1980 - 1981

$ 2,067,043

Of the Total Program Expenditures:
Government funds provide 72%
Private sources provide 28%



Supplies
Food
Recreation
Housekeeping
Office
Medical

Professional Fees
Doctors
Psychiatrists
Psychologists
Audit
Investment Fees

Occupancy
Rent
Insurance
Utilities
Taxes & interest
Equipment

Assistance
Childrens Board (Foster Home & home visits)
Living expenses (Apt.)
Clothing
Transportation
Recreation

Travel
Gas
Repair
Auto allowance
Insurance

Sacramento Childrens Home

Program Expenditures
1980-1981

Salaries and Benefits	$1,475,475	(71%)
Supplies	169,564	(8%)
Food		
Recreation		
Housekeeping		
Office		
Medicaid		
Occupancy Costs	160,577	(8%)
Rent		
Insurance		
Utilities		
Taxes and Interest		
Equipment		
Assistance	121,394	(6%)
Children's Board (Foster Home and home visits)		
Living expenses		
Clothing		
Transportation		
Recreation		
Professional Fees	77,000	(4%)
Doctors		
Audit and Investment		
Travel	40,898	(2%)
Gas, Repairs, Insurance		
Other	22,135	(1%)
TOTAL	$2,067,043	(99%)

*72% provided by Government funds
*28% provided by private sources

IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

TUESDAY, JANUARY 19, 1982

House of Representatives,
Committee on Ways and Means,
Seattle, Wash.

The committee met at 12:45 a.m., pursuant to notice, in the South Auditorium, Federal Building, 915 2d Avenue, Seattle, Wash., Hon. Charles B. Rangel presiding.

[Material pertaining to the Seattle hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, JANUARY 15, 1982

PR #20
COMMITTEE ON WAYS AND MEANS
U. S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES ADDITIONAL DETAILS REGARDING SEATTLE FIELD HEARING

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, announced today additional details on the Committee's field hearing in Seattle, Washington (as previously announced in Press Release #14). The hearing will be held on Tuesday, January 19, 1982, in the South Auditorium of the Federal Building, 915 Second Avenue, at 12:30 p.m.

The following witnesses have been invited to testify:

PANEL:

The Honorable Alan J. Gibbs, Secretary, Department of Social and Health Services, State of Washington

The Honorable Norward J. Brooks, Commissioner, Department of Employment Security, State of Washington

***

PANEL:

The Honorable William M. Polk, Speaker, House of Representatives, State of Washington

The Honorable James McDermott, Ranking Minority Member, Senate Committee on Ways and Means, State of Washington

***

PANEL:

The Honorable John Saven, Director, Office of Management and Budget, City of Seattle

The Honorable Dolores Sibonga, Councilmember, Seattle City Council

***

Mr. George Weyerhaeuser, President, Weyerhaeuser Company

***

PANEL:

Ms. Kay Thode, Director, Health and Welfare Department, Seattle Urban League

Ms. Chris Marston, AFDC recipient, Chairperson, Snohomish County Welfare Rights Coalition

Mr. Keith Putnam, Administrator for the Adult and Family Division and Assistant Director of the Department of Human Resources, State of Oregon

Mr. Benjamin W. Eide, Childrens Home Society of Washington

Mr. William Hobson, Director, Central Seattle Community Health Centers

Mr. William Wickline, Business Agent, International Woodworkers of America, Local 3-9, Tacoma, Washington accompanied by: Mr. Eddie Preston, former shop steward, St. Regis Paper Company

PANEL:

David B. Shurtleff, M.D., Childrens Orthopedic Hospital

Ms. Mary B. Malarkey, Vice Chair, Review and Advisory Committee, Project Transition

Ms. Ronnie Gilboa, Executive Director, Food Oversight Operation Distribution

Mr. Michael Reichert, Executive Director, Office of Catholic Charities, Archdiocese of Seattle

NINETY-SEVENTH CONGRESS
DAN ROSTENKOWSKI, ILL., CHAIRMAN

SAM M. GIBBONS, FLA.
J. J. PICKLE, TEX.
CHARLES B. RANGEL, N.Y.
FORTNEY H. (PETE) STARK, CALIF.
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ED JENKINS, GA.
RICHARD A. GEPHARDT, MO.
THOMAS J. DOWNEY, N.Y.
CECIL (CEC) HEFTEL, HAWAII
WYCHE FOWLER, JR., GA.
FRANK J. GUARINI, N.J.
JAMES M. SHANNON, MASS.
MARTY RUSSO, ILL.
DON J. PEASE, OHIO
KENT HANCE, TEX.
ROBERT T. MATSUI, CALIF.
DON BAILEY, PA.
BERYL ANTHONY, JR., ARK.

BARBER B. CONABLE, JR., N.Y.
JOHN J. DUNCAN, TENN.
BILL ARCHER, TEX.
GUY VANDER JAGT, MICH.
PHILIP M. CRANE, ILL.
BILL FRENZEL, MINN.
JAMES G. MARTIN, N.C.
L. A. (SKIP) BAFALIS, FLA.
RICHARD T. SCHULZE, PA.
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JOHN H. ROUSSELOT, CALIF.
W. HENSON MOORE, LA.

JOHN J. SALMON, CHIEF COUNSEL
JOSEPH K. DOWLEY, ASSISTANT CHIEF COUNSEL
ROBERT J. LEONARD, CHIEF TAX COUNSEL
A. L. SINGLETON, MINORITY CHIEF OF STAFF

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

TELEPHONE (202) 225-3625

BACKGROUND INFORMATION PREPARED FOR THE
SEATTLE HEARING

ON THE IMPACT OF CHANGES AND BUDGET CUTS IN PROGRAMS UNDER THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Tuesday, January 19, 1982
12:30 p.m.

South Auditorium
Federal Building

Seattle, Washington

Before the

Committee on Ways and Means

U.S. House of Representatives

LIST OF WITNESSES

12:30 to 1:15 PANEL:

The Honorable Alan J. Gibbs, Secretary, Department of Social and Health Services, State of Washington

The Honorable Norward J. Brooks, Commissioner, Department of Employment Security, State of Washington

***

1:15 to 2:15 PANEL:

The Honorable William M. Polk, Speaker, House of Representatives, State of Washington

The Honorable James McDermott, Ranking Minority Member, Senate Committee on Ways and Means, State of Washington

***

2:15 to 3:00 PANEL:

The Honorable John Saben, Director, Office of Management and Budget, City of Seattle

The Honorable Dolores Sibonga, Councilmember, Seattle City Council

***

3:00 to 3:30 Mr. George Weyerhaeuser, President, Weyerhaeuser Company

***

3:30 to 4:30 PANEL:

Ms. Kay Thode, Director, Health and Welfare Department, Seattle Urban League

Ms. Chris Marston, AFDC recipient, Chairperson, Snohomish County Welfare Rights Coalition

Mr. Keith Putnam, Administrator for the Adult and Family Division and Assistant Director of the Department of Human Resources, State of Oregon

Mr. Benjamin W. Eide, Childrens Home Society of Washington

Mr. William Hobson, Director, Central Seattle Community Health Centers

Mr. William Wickline, Business Agent, International Woodworkers of America, Local 3-9, Tacoma, Washington accompanied by: Mr. Eddie Preston, former shop steward, St. Regis Paper Company

4:30 to 5:15 PANEL:

David B. Shurtleff, M.D., Childrens Orthopedic Hospital

Ms. Mary B. Malarkey, Vice Chair, Review and Advisory Committee, Project Transition

Ms. Ronnie Gilboa, Executive Director, Food Oversight Operation Distribution

Mr. Michael Reichert, Executive Director, Office of Catholic Charities, Archdiocese of Seattle

II. PROFILES

A. State of Washington

There are currently 4,120,163 people in Washington State, reflecting an increase in population of 21% from 1970 to 1980. Most of the population (47%) is suburban, with only 25% of the population living in the central city. The racial mixture is 3% black, 3% hispanic, 2% asian and 1% American Indian. The workforce is 51% white collar, 33% blue collar, 13% service and 3% farm.

One of the biggest problems facing the State now is the increasing unemployment, projected to be 12% in February 1982. The largest employers in the State are the aircraft industry and the timber industry. Because of a decline in the commercial jet market, Boeing has laid off 5000 workers within the last year. High interest rates and the resulting decline in new construction have caused severe unemployment in the timber industry, with unemployment hitting 20% or more in some counties dependent on the wood products industry.

The State is also facing a growing fiscal crisis. There is no state income tax; rather the State receives revenues from a 5.5% sales tax and miscellaneous excise taxes. The State has a biennial budget, but the budget which was passed this past summer and set for 1981-83 has run into difficulty already. The State government revenues fell short in 1981 by $750 million in State-generated revenues and nearly $500 million in Federal revenues. The State sustained reductions in federal assistance for fiscal 1981-82 in the following areas and amounts: Social services ($70 million), education ($45 million), employment security ($104 million), transportation ($115 million) and many other areas ($50 million). In October, the State legislature was called into special session to pass a 1% increase in the sales tax. The state had to borrow $400 million from Citibank in New York and Salomon Brothers, and the State's bond rating dropped a full point.

The State constitution is very strict. Washington is a so-called "Dillon rule" State, which means that municipal corporations have no authority (e.g. no authority to tax) unless specifically granted that power by the State. The State constitution prohibits the use of publicly derived revenues for joint ventures with private investors. The voters just recently approved a constitutional amendment to allow the use of industrial development bonds. Currently there is debate regarding proposals to amend the State constitution to allow more flexibility in confronting the current fiscal crisis. In addition, proposals to raise the gasoline excise tax or impose a sales tax on gasoline are under discussion. The State legislature came back into session on January 11, 1982 and these alternatives are currently being discussed.

B. City of Seattle

According to the 1980 census, Seattle has a population of 493,846, down 37,000 since 1970. However, the minority population of blacks, asians and American Indians (not including hispanics), increased from 12.6% of the population to 20.5% of the population. There was an 86% increase in the asian population as a result of the influx of asian refugees. There are approximately 20,000 refugees living in King County, and approximately 2/3 of these live within the city of Seattle.

The workforce in the Seattle SMSA (which covers both King County and Snohomish County, including the city of Everett) is primarily white collar. It is composed of manufacturing (21.6%), wholesale/retail (24.2%), services (20.0%), government (14.7%), and other (19.4%). Within the manufacturing sector, the aircraft industry employment accounts for 9.9% of the work force. The largest single employer in the city is the University of Washington which employs 30,000. In fiscal 1981 the University received $165 million from the Federal government, but because of the federal budget cuts, the level of federal support in fiscal 1982 is uncertain.

The city government is prohibited by the state constitution from incurrring a deficit. As a result, this fall the Mayor and City Council had to pass $13 million in tax increases and $10 million in budget reductions to keep the budget in balance. The city receives revenue from four main sources: (1) a .5% share of the state sales tax, (2) a share of the state property tax, (3) business and occupation taxes, and (4) utility taxes. The city raised the business and occupation taxes and the utility taxes this fall. The city owns Seattle City Light which is the fifth largest public utility in the country and the third largest municipal utility. The city also owns the water supply system.

In fiscal 1981 Seattle received $16.4 from Community Development Block Grants, but in 1982 it will receive $13.5 million. In fiscal 1981 Seattle received $9.7 from General Revenue Sharing, and in 1982 it will receive $9.86. Total federal assistance will drop from $90 million in fiscal 1981 to $75 million in 1982.

A crisis was averted this fall when the closing of the Public Health Service Hospital was prevented by a plan which will move the hospital from federal to local control through an independent public authority. A local bond issue was approved this fall to pay for 1000 units of low-income elderly and handicapped housing over the next four years, but there are over 35,000 low-income households in Seattle which need housing assistance. In 1979 federal programs provided subsidies for 1000 units, but in 1982, there will be assistance for only 250 to 300 units.

The regional public transit agency is called Metro. Metro has just exercised its option, effective January 1, 1982, to impose an additional .3% on the sales tax in order to finance future capital projects, given the uncertainty of Section 3 funding. No one has yet considered what to do about the proposed phase out of Section 5 operating assistance, which brought in $10 million in 1981.

Metro also runs the sewer system. The local share of a ten-year capital program is scheduled to increase from the previously projected 20% to as much as 60%, causing sewer rates to be more than double the increases that were already planned to finance the program.

Summary

Both the State of Washington and the City of Seattle are absorbing the federal budget cuts by raising taxes and cutting government services. The taxes that are being raised are excise and sales taxes which tend to be more regressive in application. Efforts are being made to continue government services at the same level, but some government services have been cut.

C. STATE OF ECONOMY AND LABOR FORCE CONDITIONS IN WASHINGTON

Washington State is in the midst of its most serious recession since 1970-1971. The October 1981 unemployment rate of 9.1 percent was the highest reported for an October since 1970 when it reached 9.6 percent. Moreover, the estimated 176,000 who were unemployed in October 1981 was the largest number of jobless persons for an October on record. (Unemployment at the end of November exceeded 1980 levels by 20 percent.) While the unemployment rate was higher in 1970, the size of the labor force is considerably larger today. An estimated 135,700 persons were jobless in October 1970, approximately 40,000 fewer than in October 1981.

The major factor behind the high unemployment the state is now experiencing is the national recession and its effect on the lumber, homebuilding, and aerospace industries and on state and local government payrolls. Employment losses in the lumber industry, the state's second largest source of manufacturing jobs, reflect the low level of housing starts nationally and reduced log exports to Japan, which is experiencing its own housing slump. Nationally, housing starts in October were at their lowest level in 15 years. Employment in the state's lumber industry in October 1981 was 12,800, or 23 percent below its October 1978 level. Aside from the job losses, short workweeks are also widespread in the industry today.

Commercial construction has been reduced along with residential building by high interest rates, and construction payrolls have declined substantially. As a result, construction employment in October 1981 was nearly 27,000 -- 24 percent below its October 1979 level.

Growth in aerospace and in the trade and service sectors helped offset job losses in the lumber and wood products industries in 1980. In 1981, however, the effect of the national recession spread to most of the state's industries, manufacturing and nonmanufacturing as well. At mid-October 1981, nonfarm wage and salary employment was down 27,800 over the year. Nearly one-half of the loss was in the state and local governments.

D. WITNESS PROFILES

State Administrators Panel:

The Honorable Alan J. Gibbs, Secretary, Department of Social and Health Services, State of Washington. Secretary Gibbs was appointed by Governor Spellman in February, 1981 at the beginning of the Governor's administration. Prior to this appointment, he served under President Carter as Assistant Secretary of the Army from 1977 to 1981.

The Honorable Norward J. Brooks, Commissioner, Department of Employment Security, State of Washington. Commissioner Brooks was appointed to Governor Spellman's cabinet after previously serving in the same position during the Administration of Daniel Evans, Governor of the State of Washington from 1966 through 1977. From 1977 to 1981, Mr. Brooks was Director of Administrative Data Processing at the University of Washington.

State Legislators Panel:

The Honorable William M. Polk (R., 41st District), Speaker of the House of Representatives, State of Washington. Representative Polk was elected Speaker of the House of Representatives and Chairman of its Rules Committee in 1981. He was first elected to the Legislature in 1971, representing Mercer Island, the 41st District in Washington. Speaker Polk is a practicing architect and partner in the John Graham Co., Architects, Engineers and Planners.

The Honorable James McDermott (D., 43rd District), Ranking Minority member of the Committee on Ways and Means, Senate, State of Washington. Senator McDermott, former chairman of the Senate Committee on Ways and Means, has been a member of the Legislature for 10 years and was instrumental in effecting the reform of nursing homes in the State of Washington. The Senator is a practicing child and adult psychiatrist who has taken an active interest in legislative issues relating to children, education and mental health, as well as tax and budget issues.

City Officials Panel:

The Honorable John Saben, Director, Office of Management and Budget, City of Seattle. Mr. Saben, currently Director of the City of Seattle's Budget Office, is testifying today on behalf of Seattle's Mayor, the Honorable Charles Royer. Mr. Saben has been with the City's Budget Office for seven years. Formerly, he was a legislative assistant to the Seattle City Council.

The Honorable Dolores Sibonga, Councilmember, Seattle City Council. Councilwoman Sibonga was elected to the City Council in 1979, after serving as an interim member during 1977. Prior to her election, Ms. Sibonga was Deputy Executive Secretary for the Washington State Human Rights Commission, and has served in the Public Defender's office.

Mr. George Weyerhaeuser, President of Weyerhaeuser Company. Mr. Weyerhaeuser has served as President of Weyerhaeuser since 1966. He is a member of the Business Roundtable, as well as the Advisory Board of the Graduate School of Business Administration, University of Washington.

Human Impact Panel:

Ms. Kay Thode, Director, Health and Welfare Department, Seattle Urban League. Ms. Thode has been Director of the Health and Welfare Department of the Seattle Urban League for the past 13 years. She is a leading authority on welfare programs and has lobbied on behalf of welfare recipients before the Washington State Legislature for the past five years.

Ms. Chris Marston, is a mother receiving Aid to Families with Dependent Children. She is Chairperson of the Snohomish County Welfare Rights Coalition and also co-chairs Mothers-on-the-Move, an organization of single parents.

Mr. Keith Putnam, Administrator for the Adult and Family Division and Assistant Director of the Department of Human Resourcs, State of Oregon. Mr. Putnam, currently Assistant Director of the Department of Human Resources in Oregon, has also served as Deputy Director of that Department and as Administrator of the Health Division. He is a former member of the Board of Directors for th American Public Welfare Association and served on the National Governors' Task Force on Welfare and Reform.

Mr. Benjamin W. Fide, Childrens Home Society of Washington. Mr. Fide is a staff associate for Planning and Research for the Childrens Home Society of Washington. He is Chairperson of the Region X Adoption Resource Center and Vice-Chair of the Citizens' Childrens Services Advisory Committee for the State of Washington.

Mr. William Hobson, Director, Central Seattle Community Health Centers. Mr. Hobson is the Director of the Central Seattle Community Health Centers which is a consortium of five community health clinics serving a variety of low-income groups and neighborhoods in Seattle. he is currently the Chair of the Seattle Human Rights Commission. Prior to 1977, Mr. Hobson served for five years as a health services officer in the Commissioned Corps of the U.S. Public Health Service.

Mr. William Wickline, International Woodworkers of America, local 3-9 in Tacoma (Pierce County), Washington. Mr. Wickline is Business Agent for Local 3-9 of the International Woodworkers of America in Tacoma, Washington. He is also a member of the Review Committee for a Department of Labor demonstration project regarding the potential for using union self-help networks to assist unemployed workers.

Mr. Eddie Preston, a former shop steward for the St. Regis Paper Company. He is 52 years old and has been unemployed for approximately 4 months.

Private Alternatives Panel:

Dr. David B. Shurtleff, Childrens Orthopedic Hospital, Seattle Washington. Dr. Shurtleff, while appearing only in an individual capacity today, is head of the Division of Congenital Defects at Childrens, Orthopedic Hospital and the University of Washington since 1961. Dr. Shurtleff has been Director of Pacific Northwest Birth Defects Center, sponsored by the National Foundation March of Dimes. This Foundation operates university affiliated teaching clinics for medical and health-related professions in 33 cities, towns and school districts in the Pacific Northwest.

Ms. Mary B. Malarkey, Vice Chairman of the Review and Advisory Committee, Project Transition. Ms. Malarkey is speaking here today on behalf of Project Transitions, a one-year program sponsored by United Way to provide alternative funding to social service agencies. She is Manager and Vice-President of SAFECO Insurance Company. Ms. Malarkey has been active in the past in day care centers and in a number of public service organizations.

Ms. Ronnie Gilboa, Executive Director, Food Ovversight Operation Distribution. Ms. Gilboa has served in her present position since July of 1980. The Food Oversight Operation Distribution distributes food to 36 food banks in King County and is a member of the National Food Salvage Network, sponsored by Second Harvest. Ms. Gilboa is a former administrator of the Community Food Nutrition Program and former Executive Director of the Washington Public Interest Research Group.

Mr. Michael Reichert, Executive Director, Office of Catholic Charities, Archdiocese of Seattle. Mr. Reichert is the Executive Director of the Office of Catholic Charities, Archdiocese of Seattle. The Office of Catholic Charities provides human services and social justice advocacy to the Western Washington community. Mr. Reichert also serves on the Executive Board of the Church Council of Greater Seattle and is Chairman of the Social Justice Committee of the Washington State Catholic Conference.

E. SITE VISITS

I. Boeing Aircraft

Since World War II, the aircraft industry has been an extremely important part of the economy of the Seattle area. Boeing is the largest aircraft manufacturer in the state of Washington and Boeing helped Washington achieve substantial growth in the 1950s and 1960s. But building airplanes is anything but a steady business; there are few potential customers and demand can vanish suddenly, even for so accomplished a manufacturer as Boeing. That is what happened here in 1970. The year before, Boeing employed 101,000 people in Washington -- 8% of the state's total workforce. By the end of 1970 Boeing's payroll had shrunk to 38,000. Unemployment lines were jammed, 55,000 people left the state, and the Seattle area real estate market went into depression.

Within the last year Boeing has had to terminate 5000 employees, primarily because of declining sales in its commercial, as opposed to defense, aircraft.

II. Northwest Kidney Center

The Northwest Kidney Center was the first community kidney center in the world. It was established in Seattle in 1962. The Center uses techniques developed at the University of Washington by Dr. Belding Scrivner, the doctor who perfected the engineering techniques which made dialysis possible, and who together with Dr. Christopher Blagg, will be your guide at the Center. The Center had a budget in fiscal 1980 of over $9 million, over $5 million of which (59%) came from Medicare payments. The Center performed over 22,000 dialyses and treated over 800 patients in fiscal 1980.

III. IMPACT OF BUDGET REDUCTIONS ON WASHINGTON*

The Omnibus Budget Reconciliation Act passed last year by the Congress will result in the loss to the State of Washington of an estimated $400 million during the 1981-83 Biennium. This figure includes the impact of the additional cuts which may result from reduced appropriation levels. The Federal program cuts have forced the State to reduce health, social services, employment and other programs.

A. Employment and Training Programs

Washington State estimates at least $154 million in Federal assistance will be lost in fiscal 1982 for employment, training, and related educational programs in the state. Services will be eliminated or reduced to 145,000 persons. The cuts impact low-income youth, unemployed workers, Native Americans, and refugees most heavily.

B. Unemployment Insurance

In October 1981, approximately 176,000 workers were unemployed -- the largest number of jobless persons in the State on record for an October. Initial unemployment insurance claims increased 8.3 percent above 1980 levels and 41 percent above 1979. Reopened claims following a period of employment increased 30 percent in 1981 suggesting that many workers are experiencing more intermittent layoffs.

The Budget Reconciliation Act modified the method for calculating whether a state is economically distressed and therefore eligible for the "extended unemployment benefits" (EB) program. The EB program provides up to 13 weeks of unemployment compensation benefits for those who have exhausted their regular State benefits (maximum duration of 30 weeks under the state unemployment compensation program).

Extended unemployment benefits "triggered on" in Washington in July 1980. The Budget Reconciliation Act increased State trigger rates effective October 1, 1982. Thus Washington estimates extended unemployment benfits will be payable only during the the remainder of fiscal 1982. The Continuing Resolution (H.J. Res. 370) cut unemployment insurance administrative grants to the States $263.5 million if fiscal 1982. Administrative grants to Washington have been reduced nearly $5 million and 148 staff years have been cut.

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*All budget figures are for new 1981-83 Biennium.

C. Human Services Programs

1. AFDC - The Reconciliation Act will eliminate or reduce benefits to as many as 6,000 families presently covered under the AFDC program. Many of the reductions deal with incentives to work: a client's deductible work expenses are reduced, allowable resources are reduced from $2,000 to $1,000, benefits for college students are reduced, strikers' benefits are eliminated and benefits to unborn children are withheld until the mother's sixth month of pregnancy. It is expected that these cuts will cause increased expenditures in the General Assistance and Emergency Assistance programs and will lengthen the period of time that AFDC recipients remain on public assistance.

2. Food Stamps - The number of persons eligible for food stamps is reduced. Families earning more than 130% of the poverty level will be ineligible to receive stamps. Other restrictions also reduce eligibility -- adjustments for inflation are delayed, strikers are excluded, household income is redefined and earned income deduction levels are reduced. In Novembber 1981, over 16,000 fewer persons were receiving food stamps in Washington than had been receiving them in January, 1981.

3. Social Services - The Social Services Block Grant combines the funding for social services and social services staff training. Funding is reduced by 20%, which will result in a loss of $20 million in Washington in 1981-83. Programs currently funded by Title XX include community placement for adults and children; day care; services for neglected, abused and delinquent children and similar programs. States may transfer up to 10% of the block funds to other human services block grants. The states' flexibility in this program is limited because a reduction in many of the currently funded programs will result in increased expenditures in other areas, such as foster care homes or institutions.

4. Child Nutrition - The USDA food program, which partially reimburses schools and certain child care programs for expenses related to providing meals to children of low-income families, has been significantly reduced. Reimbursement rates for meals have been reduced, the number of daily meals was reduced, and the food service equipment purchase program was eliminated. In the State of Washington, 60 schools have dropped the school lunch program and 91 schools have dropped the breakfast program as a result of federal reductions. In addition, participation by children in the paid lunch program has dropped by 28% due to increases in the cost of lunches.

5. Health - The Budget Reconciliation Act established four block grants involving health programs.

The Primary Care Block is intended to support the development and operation of community health centers (CHC) which provide primary health services designed to improve the availability, accessibility and organization of health care within medically underserved communities. This program is funded directly by the federal government to local community health centers and is not effective until FY 1983. In FY 1982 the categorical CHC program continues, and $2.5 million for planning grants is available to states. In FY 1983 and FY 1984, for states not opting to accept block grant funds (the requirements under the block are stringent,) HHS must continue to operate the categorical CHC program.

The Alcohol, Drug Abuse and Mental Health Services Block provides funds to states to establish and maintain programs to combat alcohol and drug abuse, to care for the mentally ill and to promote mental health. It consolidates categorical programs for alcohol, drug abuse and mental health services.

The Preventive Health Block is intended to provide funds for a variety of public health services to reduce preventable morbidity and mortality and improve the quality of life. This Block includes eight programs: hypertension, health incentive grants, risk reduction and health education, fluoridation, rat control, emergency medical services, home health, and rape crisis.

The Maternal and Child Health Block is intended to provide funds for health services to mothers and children to reduce infant mortality, the incidence of preventable diseases and handicapping conditions among children; rehabilitative services for blind and disabled individuals under the age of 16, and treatment and care for crippled children. The Maternal and Child Health Block consolidates seven programs: Maternal and Child Health, Supplemental Security Income payments, Sudden Infant Death Syndrome, Lead-Based Paint poisoning, Genetic Diseases, Hemophilia and Adolescent Pregnancy. Funds for these programs go primarily to local health departments, non-profit agencies, or other local governmental agencies as appropriate to the purpose of the projects. Special emphasis is given to providing these services to rural and underserved areas and to areas with concentrations of low-income families.

The Washington Department of Social and Health Services will administer the block grants for Alcohol, Drug Abuse, and

Mental Health; Maternal and Child Health; Preventive Health; and Social Services. The State intends to use the authority provided to it to transfer up to 10 percent of the Low Income Home Energy Assistance Program block grant to utilize in its health and social service block grants.

The State of Washington has cut back significantly on its medical assistance program. The State eliminated two programs (1) the federally matched Federal Aid Medical Only Program (FAMCO) which served 21,000 poor persons not eligible for Aid to Families with Dependent Children, and (2) the State's program for acute and emergency care serving 1,000 people. The State enacted a much more restricted program for the medically needy and medically indigent known as the Limited Casualty Program. The program will serve only 15,000 of the 21,000 poor persons previously served by the FAMCO program. In addition, the program provides coverage for fewer services and requires the medically indigent to pay a $1,500 deductible. The State's spending for medical assistance will be reduced by $36 million in 1981-83.

PROGRAM	LOSS IN FEDERAL SUPPORT TO STATE 1981-83 BUDGET
Preventive Health) Maternal and Child Health)	$5.7 million
Medicaid	$4.6 million

6. Refugee Assistance - The State of Washington has participated in the Indochinese Refugee Resettlement Program since 1975. The State's initial resettlement commitment was the sponsorship of 500 people. By January 1976, over 4,000 refugees were residing in Washington. The current population numbers 30,000. Washington ranks third among all the States in the number of Asian refugees.

In fiscal year 1982, between 6,000 and 8,000 new refugees are estimated to enter Washington. In addition, the State expects to receive 2,000 - 4,000 individuals as a result of secondary migration within the United States.

The more recently arriving refugees have tended to be less educated, possess no English speaking ability or transferable employment skills. They face emotional problems accompanying adjustment to a new culture and require medical and other services.

Public Law 95-549 established a program of 100 percent reimbursement to states for administratve costs, social serivces medical and cash assistance for refugees. The program was made permanent in 1980 (P.L. 96-212) and time limitations on the eligibility of a refugee for assistance were established. Under current law, refugees are eligible for assistance for 36 months from the time of arrival into the U.S. The Administration is proposing to restrict eligibility to 18 months by regulation.

Of the current refugee population of 30,000, approximately 20,000 are receiving assistance. The Reagan Administration's proposed eligibility changes will eliminate Federal assistance to 8,600 people. Refugees may be eligible for federal cash assistance in two ways: (1) through the Aid to Families with Dependent Chidlren (AFDC) program, and (2) through Refugee Cash Assistance (non-AFDC). Eligible refugees are also entitled to the same medical coverage available to AFDC recipients.

D. Economic Development and Housing

The 1981-82 federal budget cuts will reduce assistance to local governments for community development activities, employment development (CETA), economic development (UDAG), waste water treatment projects, and regional planning.

1. Community Development Block Grants (CDBG) - The Community Development Block Grant Program (CDBG) provides grants to local government for funding community development activities. Generally, these funds are used to upgrade existing community facilities. The Carter budget proposed $4.03 billion for CDBG and UDAG. The Reagan budget combined the two programs and provided $4.166 billion. In FY 1981, Seattle received $16.4 million. The City estimates that it will receive $13.5 million in FY 1982.

2. Urban Development Action Grants (UDAG) - Urban Development Action Grants are administered by HUD directly to cities and urban counties to aid in the revitalization of economically distressed areas. The Carter budget proposed $675 million for UDAG. The Reagan budget provides for up to $550 million in UDAG grants. In FY 81 there were $17.5 million in UDAG grants. Since this is a discretionary program, it is unclear what the loss in funds will be. The average grant to Seattle in past years has been $2 - 3 million. This year the City anticipates a grant of $1.5 million.

3. Comprehensive Employment and Training Act (CETA) - In the mid-1970's the CETA program was created to provide employment opportunities to persons unemployed during the 1974-75 recession. The State estimates that its Employment Security Department will lose $104.3 million in Federal funds, the major portion of which is CETA funding.

4. Assisted Housing - Low-income persons living in assisted housing will be expected to pay 30% rather than 25% of their income for rent. The increase is effective October 1, 1981, for new tenants and will be phased in for persons currently receiving rent subsidies over a five-year period. Changes in regulations will result in less of an economic mix in many housing developments, as the working poor will, more or less, be excluded from subsidized housing projects.

E. Other Federal Program Reductions

1. Education - The State of Washington will be losing $43.5 million in funds for primary and secondary education primarily as a result of reductions in Titles I and II. In addition, the State will suffer a loss of $5.9 million in funding for vocational education.

2. Housing and Low-Income Energy Assistance - The State's Department of Planning and Community Affairs will lose $9.5 million. Most of the loss is attributable to reduction in Section 8 housing funds in funding for housing for the handicapped, and in funds for low-income energy assistance. The State intends to exercise its option to transfer up to 10 percent of the low-income energy assistance block grant funding to social services and health block grants.

3. Transportation - The State of Washington will receive $114.5 million less in Federal funds for transportation. Certain interstate construction projects will be delayed or eliminated as will certain urban initiative transportation projects.

IV. PROGRAM CUTS ADOPTED BY STATE OF WASHINGTON

During 1981, the legislature of the State of Washington enacted $1.5 billion in cuts in a proposed biennial budget (1981-83) of $13.3 billion. Cuts of $850 million wre made during the regular session of the legislature in January-April. Following the enactment of the Omnibus Budget Reconciliation Act, the State made $400 million in mandated cuts in Federal funding and $286 million in cuts in State spending during a special session of the legislature held in November.

Department of Social and Health Services

The Omnibus Budget Reconciliation resulted in a reduction in Federal funds to Washington for social and health services of $70 million for 1981-83. State matching funds were reduced by $14 million. In addition, during the special session, the State made cuts of $49 million in State social and health programs.

In addition to the Federal cuts, State reductions in social and health services included the following:

- $4.5 million in cuts in children's services;
- $14.9 reduction in income maintenance payments, primarily assistance to refugees;
- $1.5 million in cuts in programs for the developmentally disabled;
- $2.8 million reduction in funding in the areas of mental health;
- $1.7 million in reduced funding for alcohol and substance abuse; and
- $1.5 in cuts in aging and adult services including a decrease in congregate care services.

Children's Services

Approximately $4.5 million has been cut from State funded and Title XX assisted children's services. Title XX assisted day care has been restricted to families with incomes 38 percent or below Washington's medium income ($5,700). As a result 100 children per month will lose day care. In addition, day care support for parents seeking work has been eliminated. Family reconciliation services to 12,733 clients and 3,272 families have been eliminated.

Aging and Adult Services

Registered Nurse coverage in nursinng homes has been reduced, lowering standards of care. Increased hospital readmissions from nursing homes are anticipated.

Contracted congregate care services (room and board, assistance with daily living, medications, etc.) have been cut $1.35 million. 1,500 clients will receive less services. Increased demands on more costly alternative care systems such as nursing homes are anticipated.

Public Health Services

Public health services have been reduced by $1.5 million. Hypertension screening for 6,800 persons and dental services for 11,200 persons have been eliminated. State funds to assist approximately 100 communities obtain emergency medical services equipment have been reduced by 73 percent. Over 70 political subdivisions will not receive emergency medical equipment. In addition, 37 county and regional emergency medical service organizations and 342 licensed services will receive reduced training support.

Funding reductions will also eliminate educational materials for prenatal infant care and parent-child education for pregnant teenagers, will eliminate all training support funds for 120 public health nurses; and will affect educational activities of the State family planning, immunization, maternal and child health, and dental health programs.

V. WASHINGTON ECONOMIC AND PROGRAM DATA

A. STATE AFDC PROGRAM SUMMARY

Recipients (as of November 1981):

Number of Families	52,380
Individuals	139,405
Children	90,578 (64%)
Average Family Size	2.7 members
Percent employed (1980)	15.0%
Percent employed (Jan. 1982)	8.6%

Monthly Benefits for a Family of Three (as of November 1981):

State "Standard of Need"	$440.00
Maximum amount paid	440.00
Percent of "need" paid	100%

Maximum monthly earnings at which a family of three loses eligibility for AFDC under provisions contained in FY 1982 Budget Reconciliation Act. (150 percent of State "Standard of Need")................................. $ 660.00

Maximim monthly earnings at which a family of three lost eligibility for AFDC, prior to FY 1982 Budget Reconciliation Act (assuming work expenses equal 20 percent of earnings and child care expenses of $150 per month). [$1,330.00]

Program Options (as of October 1, 1980):

1.	Benefits for unemployed parents	NO
*2.	Benefits for unborn child	YES
*3.	Benefits for youngsters over 17 who are in school	YES
4.	Emergency assistance	YES
5.	Local government shares in AFDC costs	NO

Expenditures (preliminary Fiscal 1980 estimates):

Total	$ 245,880,495
Federal share	122,918,991
Percent paid by Federal	50%

*Program options repealed or restricted by FY 1982 Budget Reconciliation Act.

B. SUMMARY OF WASHINGTON UNEMPLOYMENT COMPENSATION PROGRAM AND UNEMPLOYMENT STATISTICS

Unemployment

	November 1980	November 1981
Total unemployment rate (for Seattle):	7.5 6.1	10.1 8.4
Insured unemployment rate (percent of workers covered under state unemployment compensation program claiming benefits):	4.6	5.5
Extended benefits "Trigger Rate":	4.68 (173.33%)	4.50 (138.88%)

Unemployment Compensation**

	November, 1980	November, 1981
Number of claimants:	72,598	87,956

	As of January 1981
Maximum weekly payment:	$ 163.00
Maximum number of weeks of State benefits:	30
Requirements for maximum:	$4,062.50 in base period
State unemployment maximum/tax:	
Base:	$ 10,800
Rate:	3.0%
Average State unemployment tax rate:	1.7%
Outstanding Federal loans:	0
Total State benefits paid in 1980:	$317,821,507

**680 hours of work needed for eligibility

C. DRAFT REPORT OF WASHINGTON STATE EMPLOYMENT AND TRAINING COUNCIL

THE NEW FEDERALISM: A STUDY OF THE IMPACT OF EMPLOYMENT AND TRAINING PROGRAMS*

CONCLUSIONS

- "New Federalism" and current national economic policy represent a dramatic and rapid shift in philosophy regarding the roles and responsibilities of the various levels of government, private business and labor, and strategies for national economic recovery. State and local governments do not seem prepared or financially capable of effectively responding to the national legislative agenda and changes as fast as the Reagan Administration is trying to shift the responsibility.

- The "best guess" estimate, and the most apparent effect of New Federalism on employment, training, education and related programs in the state during FY '82 will be the loss of at least $154 million in Federal funds. More cutbacks are anticipated for subsequent years. These losses will result in increased unemployment and subsequently further deterioration of the state's economy.

- In FY '82, Federal, and in some cases, state funding cutbacks, together with changes in program eligibility criteria, will reduce or eliminate employment, training, education or related services to the equivalent of at least 145,000 persons. Some programs will be more affected than others. In some cases, programs will be cut back (the overall average is 26 percent); in other cases programs have been eliminated completely; and in still other cases programs have received increased Federal or state appropriations. The ripple effect of these cuts, however, will affect all the users of employment, training, education and related services: employers, students, the unemployed and the underemployed. Because there is an inverse need for these services when the economy is in a slump and unemployment is high, the programs that remain will face increased demands with, in most cases, reduced resources. The elimination or reduction of some programs will also result in higher public expenditures being required in other program areas. For example, the elimination of CETA Public Service Employment and the State Work Orientation Programs has resulted in higher income maintenance caseloads, and Unemployment Insurance claims, and increased demands for student financial programs. In addition, some legislative changes will result in disincentives for income maintenance recipients to maintain or seek employment.

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*These conclusions are excerpts from a draft staff report to the Washington State Employment and Training Council. The final report will be published by January, 1982.

- The cutbacks for employment, training, education and related programs will affect people who are most in need of assistance, including:
    - Unemployed, low-income youth;
    - Low-income families with unemployed breadwinners;
    - Temporarily unemployed workers (the fractionally unemployed); and
    - Groups which are national responsibilities, such as Indian tribes and refugees.
- The total effects of the FY 82 round of Federal budget cuts and other legislative changes are as yet unknown. New regulations and full implementation are not in place. The full impact of these changes will not be known until some after-the-fact analysis can be done. However, the combination of these legislative initiatives and national economic strategy has placed state and local governments in a severe economic crisis. Continued high interest rates and inflation, as well as increasingly high unemployment (Washington State currently has the 5th highest unemployment in the nation) have contributed to these problems. The irony of this situation is that for national policies and from deteriorating even further, the state and local governments need revenue to support basic infrastructure development and invest in human capital. At a minimum some interim strategies to address the state's economic situation are needed.
- The implementation of New Federalism initiatives means that state and local governments must decide whether to cut employment, training, education, and related programs or to devise other funding arrangements. In addition, with apparent shifting of decision making responsibilities, state and local governments must be prepared to respond to constituencies' concerns/demands which, in many cases, were previously directed to the Federal government.

State and local governments and community-based organizations will also be required to work more closely together and to negotiate program and funding relationships which, heretofore, had not been required. As the baton is passed to the state and local governments, decisions must be made on the overall purpose of these programs (policy formation), planninng methods, fund allocation, organizational structures and service delivery approaches. With diminished resources for these programs pressure will be placed on agencies, various levels of government, elected officials, business and labor to plan for and develop more effective delivery systems for the remaining services. Creative service delivery methods will need to be developed to ensure that, at least, critical needs are met. More coordinated planning and some consolidation or modification of existing organizational structures and delivery systems seems warranted.

* The cutbacks in Federal resources to support employment, training, education and related programs in the state are compounded by the state's projected one billion dollar budget shortfall for the 81-83 biennium. A further 10.1 percent reduction of state support for these programs would have an even greater effect than the Federal cutbacks, and would mean a loss of over 213 million dollars for these programs in FY 82 alone.

* It does not appear that the business community or volunteers will be able to replace the services lost or reduced as a result of Federal budget cuts. However, efforts must be increased to obtain their support and contributions.

* The block grants which were created for FY 82 were not as many nor as broad as originally proposed. Even though some administering jurisdictions have increased program flexibility. other areas still have numerous "strings attached". The negative effects of the funding reductions outweigh any increased administrative flexibility under these block grants.

* The future of an employment and training block grant is uncertain. Congress is considering several alternatives which could combine a number of categorical programs (e.g., CETA, vocational education, the Employment Service or other related programs) in this area. Continued contingency planning for this possibility is necessary.

* There are no simple answers to the complex situation the state faces. All the alternatives available, from doing nothing to initiating a state economic recovery program, will cost money either in the short-term or the long-term. However, depending on what decisions are made, the state has a number of choices on how additional revenue can be generated; local governments have some, although very limited revenue generating options. Because of the national budget priorities full implementation of the concept off "revenue turnback": does not seem likely for some time. Therefore, the fate of these programs and the subsequent impact on the state's economy clearly is up to the state, in cooperation with others, to determine.

VI. Data on National Impact of Budget Reductions

The following four tables highlight the impact of budget reductions on programs under the jurisdiction of the Committee on Ways and Means. Table 1 contains state-by-state estimates from the Department of Health and Human Services on the number of families who will no longer be eligible for the Aid to Families with Dependent Children (AFDC) program as a result of the change in earnings disregards and the counting of stepparent income. The 400,000 families who lose eligibility for AFDC will also lose Medicaid benefits. This table also contains estimates on the number of families who will have reduced benefits as a result of the 1981 Budget Reconciliation Act.

Table 2 shows the impact state by state of the loss in Title XX monies as a result of the reduced authorization level.

Table 3 illustrates the number of individuals and/or families and the average dollar loss per year for each of the major changes enacted in the Budget Reconciliation Act of 1981.

Table 4 is the total number of dollars saved or reduced benefits by major program. The Budget Reconciliation Act reduced spending by $8.9 billion in fiscal year 1982 and $29.1 billion from fiscal year 1982 to 1984 for programs under the jurisdiction of the Committee on Ways and Means.

TABLE 1

SUMMARY TABLE SHOWING FAMILIES THAT LOSE, OR ARE MADE INELIGIBLE BY CUMULATIVE EFFECTS OF PROPOSALS, FY 82*

	Families With Reduced Benefits		Families Made Ineligible	
	#	%	#	%
Alabama	4900	7.4	9291	14.0
Alaska	230	3.7	542	8.8
Arizona	1679	10.0	1400	8.3
Arkansas	2880	8.8	4180	12.8
California	42010	8.2	51017	10.0
Colorado	3006	9.9	4726	15.5
Connecticut	3836	7.9	8019	16.4
Delaware	870	7.2	1240	10.3
District of Columbia	2529	7.4	3311	9.6
Florida	3746	4.0	10307	11.0
Georgia	2452	2.9	9582	11.3
Hawaii	3034	14.8	3030	14.8
Idaho	499	6.1	1000	12.1
Illinois	14606	6.3	15983	6.9
Indiana	3756	6.9	10153	18.7
Iowa	3698	10.7	5217	15.0
Kansas	1553	6.3	5666	23.0
Kentucky	1821	2.8	9269	14.0
Louisiana	3335	4.7	5081	7.2
Maine	1592	7.3	4794	22.1
Maryland	3793	4.8	10853	13.8
Massachusetts	12048	8.9	25971	19.1
Michigan	22059	9.9	20622	9.2
Minnesota	5925	11.2	13901	26.3
Mississippi	4097	6.6	11528	19.0
Missouri	5364	7.6	13948	19.7
Montana	290	4.5	1744	27.3
Nebraska	1392	11.0	1629	12.8
Nevada	654	16.7	0	1.0
New Hampshire	1184	16.0	591	8.0
New Jersey	13638	8.5	11777	7.3
New Mexico	1444	7.9	580	3.2
New York	19367	5.0	15221	3.9
North Carolina	3898	4.8	9902	12.2
North Dakota	621	12.1	1051	20.4
Ohio	7672	4.2	15899	8.8
Oklahoma	1133	3.6	1812	5.8
Oregon	4444	9.6	3348	7.3
Pennsylvania	15529	6.8	24632	10.8
Rhode Island	2643	13.8	1920	10.0

South Carolina	2127	3.8	6171	11.1
South Dakota	741	9.5	925	11.9
Tennessee	1126	1.8	7085	11.0
Texas	4058	4.1	8119	18.3
Utah	1596	11.4	2084	14.9
Vermont	339	4.2	1356	16.7
Virginia	4469	7.1	8227	13.1
Washington	3166	5.7	2253	4.1
West Virginia	1411	5.0	1406	14.9
Wisconsin	10183	13.4	12068	15.9
Wyoming	153	5.7	408	15.3
U.S. TOTAL	258,528	6.9	400,836	10.7

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*These estimates incorporate the effect of the following seven proposals: (1) counting stepparent income, (2) eliminating eligibility of children age 18-20, (3) counting EITC advance payments, (4) standardizing work expense and child care deductions and applying the 1/3 disregard to net income, (5) eliminating 30 and 1/3 disregard for determining eligibility after four months, (6) eliminating benefits when gross income exceeds 150 percent of need standard, and (7) the $10 minimum payment.

TABLE 2

FY 1982 Federal Allotments to States for Social Services
(Title XX Block Grant)
Under Prior and Current Law
[in thousands of dollars]

Total	Prior Law $3,000,000	Current Law $2,400,000	Amount of Reduction $600,000
Alabama	51,373	40,989	10,384
Alaska	5,534	4,215	1,319
Arizona	33,394	28,640	4,754
Arkansas	29,714	24,089	5,625
California	309,326	249,403	59,923
Colorado	37,783	30,442	7,341
Connecticut	42,458	32,749	9,709
Delaware	7,933	6,270	1,663
District of Columbia	8,941	6,723	2,218
Florida	120,765	102,631	18,134
Georgia	69,746	57,575	12,171
Hawaii	12,471	10,168	2,303
Idahoi	12,335	9,947	2,388
Illinois	153,055	120,313	32,742
Indiana	73,604	57,849	15,755
Iowa	39,555	30,695	8,860
Kansas	32,290	24,899	7,391
Kentucky	48,074	38,576	9,498
Louisiana	54,767	44,298	10,469
Maine	14,952	11,854	3,098
Maryland	56,538	44,424	12,114
Massachusetts	78,633	60,451	18,182
Michigan	125,494	97,553	27,941
Minnesota	55,339	42,960	12,379
Mississippi	33,108	26,564	6,544
Missouri	66,339	51,811	14,528
Montana	10,713	8,293	2,420
Nebraska	21,454	16,543	4,911
Nevada	9,568	8,419	1,149
New Hampshire	12,090	9,705	2,385
New Jersey	99,937	77,595	22,342
New Mexico	16,915	13,698	3,217
New York	240,547	185,000	55,547
North Carolina	76,411	61,895	14,516
North Dakota	8,955	6,881	2,074
Ohio	146,267	113,769	32,498
Oklahoma	39,419	31,875	7,544
Oregon	34,444	27,744	6,700
Pennsylvania	159,897	125,044	34,853
Rhode Island	12,663	9,979	2,684
South Carolina	39,964	32,865	7,099
South Dakota	9,391	7,271	2,120
Tennessee	59,701	48,376	11,325
Texas	182,373	149,922	32,451
Utah	18,633	15,395	3,238
Vermont	6,720	5,384	1,336
Virginia	70,837	56,331	14,506
Washington	53,513	43,518	9,995
West Virginia	25,598	20,547	5,051
Wisconsin	64,335	49,577	14,758
Wyoming	6,134	4,963	1,171

TABLE 3

Number of Individuals/Families and the Average Dollar Loss Per Year for the Major Changes Enacted in the Budget Reconciliation Act of 1981

Program Change	Number of Individual/Families	Average Dollar Loss (full year basis)
AFDC		
Tightening of Earnings Disregards	260,000 families with reduced benefits (6.9% of caseload) 300,000 families with benefits eliminated (8% of caseload)	$1,400 plus loss of Medicaid for the families eliminated
Counting of Step-parents Income	100,000 families (2.7% of caseload)	$1,950 plus Medicaid
Social Security		
Elimination of Minimum Benefit	1,300,000 individuals	$1,000
Reduced Insurance Benefits for Post-secondary Education	250,000 individuals with benefits eliminated beginning 6/82	$3,000
	400,000 individuals with reduced benefits beginning 9/82	$1,970
Termination of Parent's Benefit When Child Attains Age 16	By 8/83 200,000 individuals will have benefits eliminated	$2,500
Restriction on Lump Sum Death Benefit	785,000 payments	$ 255
Unemployment Compensation		
Elimination of National Trigger*	640,000 individuals	$1,080
Redefinition of State Trigger Calculation*	850,000 individuals	$1,160
Medicare		
Increase in Beneficiary Copayments or Deductibles	17,000,000	$ 22

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*Highly sensitive to economic conditions. These estimates are from the Department of Labor mid-session review economic projections and are for fiscal year 1982.

TABLE 4

BUDGET IMPACT OF RECONCILIATION CONFERENCE AGREEMENT ON PROGRAMS WITHIN WAYS AND MEANS JURISDICTION[1]

	Fiscal Year (in millions of dollars)		
	1982	1983	1984
Trade Adjustment Assistance	-1,335	- 840	- 600
Social Security	-2,197	-3,778	-4,611
Unemployment Compensation[2]	-1,483	- 737	- 446
Aid to Families with Dependent Children	-1,026	-1,255	-1,303
Child Support Enforcement	- 132	- 143	- 157
Supplemental Security Income	- 95	- 123	- 120
Social Services Block Grant	- 699	- 749	- 799
Low-Income Energy Assistance	- 372	- 672	- 992
Medicare	-1,598	-1,310	-1,522
TOTAL[2]	-8,937	-9,607	-10,550

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[1] Based upon the economic assumptions of the first budget resolution.

[2] Does not include the revenue impact of the unemployment loan reform provisions.

5 SUMMARY OF MAJOR AFDC AMENDMENTS IN THE FY 1982 BUDGET RECONCILIATION ACT

1. Limitation on Earnings Disregard: Limits the work expense disregard to $75 per month for full-time employment, and caps the child care disregard at $160 per month per child.

   The $30 plus one-third disregard is allowed only during the first 4 consecutive months in which a recipient has earnings in excess of the standard work expense and child care disregards.

2. Income Limit for AFDC Eligibility: Limits eligibility for AFDC to families with gross incomes at or below 150 percent of the State's standard of need.

3. Determination of Resources: Limits allowable resources to $1,000 (equity value) per family, excluding the home, clothing, furniture and one automobile with an equity value not in excess of $1,500.

4. Treatment of Earned Income Tax Credit (EITC) Advance Amount Under AFDC: In determining AFDC benefits, States must assume that an individual is receiving the EITC advance payment that he or she is eligible to receive, regardless of whether the person has applied for the advance payment.

5. Income of Stepparents Living With Dependent Child: Requires the net income of a stepparent be counted in determining eligibility and benefit amounts for AFDC recipients.

6. Community Work Experience Program: Authorizes States to establish community work experience programs for AFDC recipients. Under these programs, recipients would be required to work on public projects in return for their AFDC grants. The amount of work required in relating to the family's AFDC payments must be consistent with Federal or State wage provisions. Persons exempt under present law from participation in the WIN program would also generally be exempt from participation in this program except that parents caring for children under age 6 (but not under age 3) could be required to participate if child care is available.

7. Age Limit of Dependent Child: Limits benefits to children through age 17. A State couild opt to provide benefits through age 18 to those who are completing high school.

8. Limitation on AFDC for Pregnant Women: Prohibits AFDC for pregnant women with no other children until the 6th month of pregnancy. However, a State could provide medicaid for AFDC-eligible pregnant women with no children from the determination of pregnancy.

9. Eliminates Payments of Aid in Amounts Below $10: Prohibits States from making AFDC paments of less than $10 a month. Individuals denied a benefit as a result of this provision would be considered recipients for all other purposes; including medicaid eligibility.

10. Retrospective Accounting and Monthly Reporting: Requires States to determine monthly benefits "retrospectively," on the basis of the actual income of the previous month, rather than on the estimated income of the forthcoming month. States would have to require recipients to provide monthly reports on income, family composition, resources, etc.

11. Cost of Coillection and Other Child Support Enforcement Services for Non-AFDC Families: Requires States to retain a fee equal to 10 percent of the support collected. This 10 percent fee would be charged against the absent parent and added to the amount of collection.

6. Washington Projected FY '82 Reduction in AFDC Program*
(in Thousands)

Provisions	Projected Date of Implementation	Est. State FY 82 $ Savings	Est. Federal FY 82 $ Savings
. Earned Income Disregards	October 1, 1981	$1,016	$1,016
. $1,000 Resource Limit	October 1, 1981	922	922
. Food Stamp and Housing Subsidy Offset	Not implementing		
. 150% Income eligiblilty Limit	October 1, 1981	833	833
. Lump Sum Payment	October 1, 1981	118	118
. Earned Income Tax Credit	October 1, 1981	628	628
. Stepparent Liability	Already in effect		
. Commmunity Work Experiences	No decision		
. Work Supplementation	No decision		
. WIN Demonstration	Not implementing		
. Strikers	October 1, 1981		
. Dependent Child Age Limit	Already in effect		
. Unborn Child Coverage	October 1, 1981	1,398	1,398
. UP as Principal Earner	No AFDC-UP		
. Work Requirements for Parents Attending College	October 1, 1981		
. $10 Minimum Payment	October 1, 1981	3	1
. Vendor Paymment Limit	October 1, 1981		
. recoupment	January 1, 1981	1,500	1,500
. Reduced Training Match	October 1, 198 1	(90)	173
. Retrospective Accounting and Monthly Reporting	October 1, 1981		
. Alien Eligibility	October 1, 1981		
TOTAL		$6,328	$6,598

Exerpted from a survey of states conducted by the American Public Welfare Association.

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7. Examples of Budget Reductions in AFDC,

AFDC Impact of Earnings Disregard Changes

For a family of 3 (mother and 2 children) in Washington,* the maximum AFDC payment is $415 per month. This family of three loses eligibility for any AFDC assistance when earnings exceed $622/month (150% of State standard of need). With no earnings this family will receive $415 in AFDC benefits plus $118 in Food Stamps for a total net income of $533 per month. The budget reductions did not affect this family with no earnings. These deductions assume the maximum shelter deductions under the food stamp program plus the $75 AFDC work expense deduction is not prorated in examples #1 and #2. The three examples below illustrate how net income changes as earnings increase under prior and current law.

Example 1: $200 in monthly earnings, EITC of $20, $100 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$388	$383	$337
Food Stamps	74	74	88
Net Earnings (includes EITC)	120	120	120
Total Net Income	582	577	545

Example 2: $300 in monthly earnings, EITC of $30, $150 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$365	$332	$260
Food Stamps	54	62	84
Net Earnings (includes EITC)	180	180	180
Total Net Income	599	574	524**

Example 3: $581 in monthly earnings (full-time minimum wage job), EITC of 32, $300 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$326	183*	37*
Food Stamps	0	0	81
Net Earnings (includes EITC)	313	313	313
Total Net Income	639	496**	431**

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*Earnings exceed 150% of "State standard of need". Possibly loses medicaid.

**Less income than the same family with no wage income.

VII. BACKGROUND INFORMATION ON SELECTED PROGRAMS

A. Social Services Program (Title XX)

Title XX of the Social Security Act authorizes funds to be provided on an entitlement basis to States for social services. Each State's share is determined on the basis of the proportion of its population to the total population of all the States. $2.4 billion is available to States under title XX in FY82 compared to approximately $3.0 billion in FY 81.

Title XX requires that each service provided under a State program be directed at achieving at least one of the following goals for the recipient:

--achieving or maintaining economic self-support or self-sufficiency;

--preventing or remedying abuse or neglect of children and adults unable to protect their own interest;

--preventing inappropriate institutional care by providing community based or home based care; or

--enabling individuals to secure appropriate institutional care when necessary.

Before expending funds under the title XX Social Services Block grant for any fiscal year, States are required to develop and make public a report on how the funds are to be used, including information about the types of activities to be funded and the characteristics of the individuals to be served.

Although title XX provides discretion to States to define services intended to accomplish the goals of the program there are certain limitations and requirements. For example, medical care may be financed with title XX funds only if it is integral to a social service; room and board may be paid for only if it is integral to a social service or is for the costs of subsistence during rehabilitation or temporary emergency shelter provided as a protective service. Services to residents of medical facilities, group homes, or halfway houses can be funded with title XX only if provided by an agency other than the facility where the individual resides and the same services are available to people who do not reside in such institutions.

Day care services for children consumed about 18 percent of all Federal funds spent for title XX in fiscal year 1980. Home based services, such as homemaker/chore services accounted for about 14 percent of all Federal funds in 1980. Protective services and other services related to child foster care accounted for another 19 percent. With few exceptions, expenditures for a particular service vary widely among the States. For example, in fiscal year 1980 Maryland planned to spend 23 percent of their title XX funds for child day care compared to 12 percent in Virginia.

The title XX agency may provide social services directly by its own staff, or it may choose to purchase services from other public and private organizations. In fiscal year 1978, 54 percent of title XX expenditures were made under contract to other social services agencies. Of this amount 33 percent were purchased from other public agencies. The remaining 46 percent of expenditures were for services provided directly by staff of the State agencies administering title XX.

Major Budget Reconciliation Act Changes in the Title XX Social Services Program

Reduced Funding

	Previous Law	Budget Reconciliation Act
FY 81	$3.0 billion	--
FY 82	3.1 billion	$2.4 billion
FY 83	3.2 billion	2.45 billion
FY 84	3.3 billion	2.4 billion
FY 85	3.4 billion	2.6 billion

Elimination of Certain Federal Priorities

The Budget Reconciliation Act eliminated the federally mandated priority that at least 50 percent of the Federal title XX funds received by a State must be expended for services to recipients of AFDC, SSI or medicaid.

The Budget Reconciliation Act also eliminated the following provisions in the title XX program related to targeting services to low income individuals and families:

--With certain exceptions, no person with gross family income higher than 115 percent of the State's median for a family of four (adjusted for family size) could receive title XX funded services. The exceptions were protective services for abused or neglected children or adults, family planning services and information and referral services.

--States had to charge fees reasonably related to income for services to individuals or families with incomes higher than 80 percent of the State's median income or the median income of all States, whichever was lower, and, they could at their option, charge fees for services to persons below that income level.

B. Aid to Families With Dependent Children (AFDC)

Eligibility and Financing

Aid to Dependent Children (ADC) was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers. Renamed Aid to Families with Dependent Children (AFDC), it now provides cash welfare payments for needy children (and their mothers or other caretaker relatives), who have been deprived of parental support or care because:

-- their fathers are absent from home continually (85.9 percent of the children), are incapacitated (5.3 percent), dead (2.2 percent), or unemployed (5.2 percent); or

-- their mothers are incapacitated, absent or dead (1.4 percent). (Percentaes are from the 1979 AFDC Study).

States define "need"; set their own benefit levels; establish (within Federal limitations) income and resource limits; and, administer the program or supervise its administration. All States the District of Columbia, Guam, Puerto Rico, and the Virgin Islands offer AFDC to needy children without able-bodied fathers at home, and 28 jurisdictions offer Federal cash supplements also to children in two-parent families who are needy because of the unemployment of one of their parents (Aid to Families with Dependent Children of Unemployed Parents (AFDC-UP).

Eligibility for federally aided AFDC ends on a child's 18th birthday. (Prior to the amendments contained in the 1981 Budget Reconciliation Act, a State could continue benefits through age 20 for those who are students.) Federal law requires certain able-bodied recipients, including mothers who youngest child is at least 6 years oldd, to register for training and employment services (which may include job search for no more than 8 weeks per year) under the Work Incentive program (WIN). The law also requires AFDC mothers to assign their child support rights to the State and to cooperate with welfare officials in establishing the paternity of a child born outside of marriage and in obtaining support payments from the father.

The Federal Government pays at least 50 percent of each State's benefit payments and more than 70 percent of benefit payments made by the four poorest States. Federal matching for AFDC varies from State to State depending, in part, on per capita income. The minimum Federal share is 55 percent. For States with below-average income, the Federal share ranges up to 77.36 percent in fiscal years 1982-83. The Federal government pays 50 percent of administrative costs in all States. In fiscal year 1980 AFDC benefits totaled $11.3 billion, and FY 81 benefits are expected to total $12.6 billion. Of total FY 80 benefits, $6.1 billion, or 54 percent, was paid by the Federal Government. At the start of FY 80, 11 States required their localities to help pay for benefits.

Benefits

Maximum AFDC payments vary sharply from State to State. State payments for AFDC families of three ranged in July 1981 from $96 in Mississippi to $506 in California. All AFDC families automatically are eligible for Medicaid, and most have income within limits of the food stamp program.

States are required by Federral law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. Prior to the Omnibus Budget Reconciliation Act of 1981, in order to provide a financial incentive for recipients to seek and maintain employment, the law required the deduction of an initial $30 in monthly earnings plus one-third of remaining earnings, plus work expenses (any expenses, including child care costs, reasonably attributable to the earning of income). When making an initial determination of eligibility, however, only work expenses are disregarded.

Amendments in the Budget Act limited the disregard for work expenses to $75 per month for full-time employment and capped the child care disregard at $160 per month per child. The $30 plus one-third disregard is allowed for only 4 consecutive months in a 12-month period. Furthermore, States are prohibited from paying AFDC to any family with a gross income at or above 150 percent of the State's standard of need. These changes drastically reduced the amount of earnings a recipient can have and still receive some amount of AFDC.

AFDC also provides cash aid for foster care of AFDC-eligible children removed from their home at judicial order and, under certain conditions, for those voluntarily placed in foster care. In August 1980, foster care payments were made on behalf of 100,146 children, 1.3 percent of all children enrolled. Their payments averaged $375 per child ($253 per child in foster care family homes, $1,103 per child in child care institutions).

Enrollment Data

The average number of AFDC recipients declined in FY 79 for the fourth straight year, averaging 10.3 million. The rolls peaked in FY 76 at a monthly average of 11.3 recipients in 3.6 million families. However, in August 1980, AFDC family enrollment climbed to a new all-time monthly high of 3.7 million, totaling 10.9 million persons. Of these families, 168,000 had unemployed parents.

As of November 1980, AFDC family enrollment was 3.8 million. This included 11 million recipients, of which 7.6 million (69%) were children. Of these AFDC families, 181,579 were two-parent families eligible because of an unemployed parent.

C. UNEMPLOYMENT COMPENSATION

The framework of the Federal/State unemployment compensation system is established under the provisions of title III of the Social Security Act and the Federal Unemployment Tax Act (FUTA), chapter 23 of the Internal Revenue Code. The major provisions of the system are determined by state laws. In general, state laws establish eligibility requirements, the number of weeks an individula may collect unemployment compensation, the amount of the weekly benefit, the circumstances under which benefits may be denied, the length of denial, and the state unemployment tax structure. 1980 amendments to the Fedral law established certain eligibility requirements and other limitations with respect to the extended benefits program, one-half of which is financed in part by the Federal Government.

The unemployment compensation system is financed by State and Federal payroll taxes on employers. Three states also levy unemployment taxes on employees. The amount and structure of state unemployment taxes vary considerably among the states. Most states have a number of tax rate schedules and will use higher or lower schedules depending on the solvency of the state's trust fund. All jurisdictions, with the exception of Puerto Rico and the Virgin Islands, provide a system of experience rating under which state tax rates vary among employers according to the total amount of unemployment benefits that have recently been paid to former employees of each employer. The Federal unemployment tax rate is currently 0.7% on the first $6,000 in wages. This Federal tax is paid by all but "reimbursement basis" employers.

More than 87 million workers, or about 97 percent of wage and salary workers, are covered by the unemployment compensation system. "Covered" employment is employment subject to the Federal and/or state unemployment taxes; or, employment (such as employment for state and local governments and nonprofit organizations) that states are required by Federal law to cover under their programs even though such employment is not subject to the Federal unemployment tax.

An employer is subject to the Federal unemployment tax if, during the current or last year, he employed one or more individuals during some part of a day in each of at least 20 calendar weeks, or if he paid wages of $1,500 or more during one calendar quarter of either year. In addition, agricultural employers who employ 10 or more farmworkers in 20 weeks or have quarterly payrolls for agricultural services of $20,000 or more are covered. Also covered are employers who pay $1,000 cash wages or more in a quarter to domestic workers. Federal law also requires coverage of employment for nonprofit organizations with four or more workers and coverage of employment for state and local governments. Nonprofit organizations and state and local governments are not subject to the Federal tax and may finance benefits on a "reimbursement basis" rather than pay state unemployment taxes.

All State laws provide that, to receive benefits, a claimant must be (1) able to work and (2) available for work. These requirements are positive conditions that must be continually met in order to receive benefits. In addition, all States require that in order to receive benefits an individual must have earned a specified amount of wages and/or worked for a certain period of time prior to filing for unemployment compensation. The amount of wages or duration of previous employment that is required varies significantly from State to State. In general, the amount of a qualified claimant's weekly payment (up to a maximum amount specified in State law), and the number of weeks he or she can draw benefits, vary according to the claimant's previous wages.

Generally, States provide up to a maximum of 26 weeks of State unemployment compensation benefits to unemployed individuals who meet the qualifying requirements of State law. Many claimants qualify for less than the maximum 26 weeks, and in 9 States claimants may receive more than 26 weeks of State benefits.

Federal/State Extended Benefits

Under the Federal/State Extended Benefits program, up to a maximum of 13 additional weeks of unemployment compensation are payable to individuals who exhaust their State unemployment benefits. In States where the extended benefits program is triggered on, individuals who exhaust State benefits are entitled to receive additional weeks of benefits, at the same weekly payment amount, for one-half the number of weeks they received State benefits. For example, if the person was entitled to 20 weeks of State unemployment compensation, he or she would be entitled to 10 weeks of extended benefits. If the person was entitled to 26 weeks of State benefits, which is the maximum duration in most States, he or she could receive 13 weeks of extended benefits. No one can receive more than 39 weeks of State plus extended benefits.

Until September 25, 1982, extended benefits are payable in a State if the State average insured unemployment rate* for the most recent thirteen weeks equals or exceeds 4.0 percent and is 20 percent higher than the average insured unemployment rate for the corresponding thirteen week periods in the previous two years. In addition, when the State insured unemployment rate reaches 5.0 percent, a State, at its option, if State law so provides, may pay extended benefits even if the 20 percent factor is not met. Thirty-nine States have this optional State trigger in their laws.

Prior to the Reconciliation bill, extended benefits were paid in all States, regardless of the individual State unemployment rates, when the national insured unemployment rate equalled or exceeded 4.5 percent. This is referred to as the "national extended benefits trigger."

Amendments contained in the Omnibus Budget Reconciliation Act of 1981 made the following changes in the extended benefits program:

(1) Effective upon enactment (August 15, 1981), the national trigger in the extended benefits program was repealed.

(2) Effective upon enactment, individuals claiming extended benefits were excluded from the numerator in determining the insured unemployment rate for extended benefits trigger purposes.

(3) Effective September 25, 1982, both the mandatory and optional State extended benefit trigger rates are increased by 1 percent. In other words, extended benefits will be payable in a State when the insured unemployment rate equals or exceeds 5.0 percent (rather than 4.0 percent as under current law) and is 20 percent higher than the rate for the corresponding period in the previous two years; or, if State law provides, the average State insured unemployment rate equals or exceeds 6.0 percent (rather than 5.0 percent as under current law), without regard to the 20 percent factor.

(4) Effective September 25, 1982, extended benefits are limited to individuals who have 20 or more weeks of work, or the equivalent in wages, in their base period.

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*(The state insured unemployment rate is calculated by dividing the total number of individuals claiming unemployment compensation benefits by the total number of people covered under the state unemployment compensation law. The national insured unemployment rate is the average of all state insured unemployment rates. Prior to the Reconciliation bill, in determining both the state and national extended benefit trigger rates, individuals collecting state benefits plus individuals collecting extended benefits were included in the numerator in determining the state and national insured unemployment rates.)

D. MEDICAID PROGRAM

DESCRIPTION. Medicaid is a Federal-State entitlement program that purchases health care for certain categories of poor people--the aged, blind, disabled, and mothers with dependent children. The States reimburse providers for delivering covered services to eligible persons. The Federal government matches these State outlays at a rate that ranges from 50% to 77%, depending upon a State's per capita income.

It is estimated that in FY 1982 Federal Medicaid matching payments to States will total $17 billion (after adjusting for reconciliation savings), while States (and in some cases localities) an additional $14 billion, making Medicaid by far the largest source of health care financing for the poor.

This $31 billion will purchase services for some 23 million people, roughly half of whom are children under 21. Within the general requirements of Title XIX of the Social Security Act, States have a great deal of discretion in administering their Medicaid programs. Thus, eligibility, benefits, and provider reimbursement policies vary considerably from State to State.

ELIGIBILITY. States must cover the "categorically needy." Basically, these are mothers and children receiving cash assistance under the Aid to Families with Dependent Children (AFDC) program, and aged, blind, or disabled persons receiving cash assistance under the Supplemental Security Income (SSI) program. (States can elect to impose more restrictive Medicaid standards on SSI beneficiaries, but neither Arkansas, Mississippi, nor Tennessee has chosen to do so).

States may cover the "medically needy." These are persons whose incomes and resources are too high to allow them to qualify for AFDC or SSI benefits but not high enough to enable them to afford medical care. To become eligible for Medicaid under the "medically needy" program, an individual may "spend down" by incurring medical expenses so that, when these expenses are subtracted from gross income, the individual's net income falls below the medically needy eligibility level established by the State. (Arkansas and Tennessee cover the medically needy; Mississippi does not). In a State like Mississippi which does not offer coverage to the medically needy, a person who loses eligibility for AFDC or SSI loses Medicaid coverage as well. In a State like Tennessee or Arkansas, a person who loses AFDC or SSI benefits may still qualify for medically needy Medicaid coverage by "spending down."

However, the income standard for the "medically needy" may be below that for the "categorically needy".

Nationally, it is estimated that of the 23 million people eligible for Medicaid in FY 82, 3.6 million will be aged, 3 million blind and disabled, 11 million children under 21, and 5.4 million adults in AFDC families.

BENEFITS: States must provide the following services to the categorically needy: inpatient hospital, outpatient hospital, laboratory and x-ray, skilled nursing facility (SNF), home health care services for persons eligible for SNF services, physicians' services, family planning, rural health clinic services, certified nurse midwife services, and early and periodic screening, diagnosis, and treatment (EPSDT) for children under 21. States may provide coverage for other "optional" services, such as prescription drugs, intermediate care facility services, dental care, clinic services, and eyeglasses.

For both the "mandatory" and "optional" services, States may set limitations on the amount, duration, and scope of coverage (for example, a limitation on the number of days of hospital care or the number of physicians' visits).

States may impose "nominal" copayments and deductibles on all services except the mandatory benefits provided to the categorically needy.

Benefits for the "medically needy" are generally less than benefits offered to the "categorically needy".

Under the "freedom of choice" provisions in current law, Medicaid beneficiaries are entitled to receive services from any hospital, nursing home, physician, or other provider who agrees to participate in the program. The States are, however, authorized to "lock" beneficiaries who overutilize services into particular providers for reasonable periods of time.

Nationally, the Medicaid dollar purchases mostly hospital and nursing home care. In 1979, about three-fourths of all Medicaid dollars were spent at such institutions, leaving only about a fourth of the dollars for outpatient and preventive health services.

Much of the Medicaid institutional dollar is spent on long-term care; in 1979, 35 percent of all Medicaid outlays paid for SNF and ICF nursing home services. Another 27 percent went to general hospitals. And 11 percent paid for institutional care for the mentally ill and mentally retarded. Medicaid is the largest single purchaser of nursing home care, accounting for about half of the $10 billion in industry revenues in 1980.

Major Reconciliation Act Changes in the Medicaid Program

Although the Administration did not secure Congressional approval of its proposal to "cap" the medicaid entitlement program, the Omnibus Budget Reconciliation Act of 1981 did make a number of major changes in the program which are likely to lead to state cutbacks. CBO estimated FY 82 Federal savings at $944 million. The major changes are:

1. Reduction in Federal Matching

States will be subject to a reduction of up to 3 percent in FY 82 in the amount of Federal matching payments they are otherwise entitled to. This reduction does not affect the States' statutory matching rate; rather, it is applied after the matching rate calculation is made. States can reduce the amount of the reduction by 1 percentage point for each of the following:

(a) operating a qualified hospital cost review program;

(b) sustaining an unemployment rate exceeding 150 percent of the national average;

(c) demonstrating recoveries from fraud and abuse activities equal to 1 percent of Federal payments.

In addition, States that keep their FY 82 medicaid outlays below 109 percent of the estimated FY 81 outlays will receive a dollar-for-dollar offset against the 3 percent reduction; for each dollar they are below the target, they lose one less dollar in reductions.

In FY 84, the percentage reduction is scheduled to increase to 4 percent; in FY 85, to 4.5 percent. Thus, losses in Federal funds to the States will increase over time.

2. Hospital Reimbursement

The previous requirement that States pay for medicaid inpatient hospital care on the same "reasonable cost" basis that medicare uses has been eliminated. Instead, States are now required to establish reimbursement levels that are "reasonable and adequate" to meet the costs that must be incurred by efficiently and economically operated facilities. In setting rates, States must take into account the situation of hospitals which serve a disproportionate number of low-income patients (e.g., public general and teaching hospitals).

3. Medically Needy

States have been given increased "flexibility" in designing their medically needy programs. They no longer need to cover all groups (e.g., aged, blind, disabled persons, and mothers and dependent children); they no longer need to offer each group a minimum number of services or a comparable service package. However, if they choose to cover any medically needy group, they must cover children up to 18 for ambulatory services and pregnant women for prenatal and delivery.

4. Freedom of Choice Waivers

The Secretary is authorized to allow States to restrict the providers or practitioners from which a medicaid beneficiary can obtain health care. States will have to apply to the Secretary for any such plans to assure that they are consistent with statutory standards relating to access and quality. These restrictions could be imposed on a statewide, regional or local basis.

NORTHWEST KIDNEY CENTER FIELD TRIP MATERIALS

The Committee Members visited the Northwest Kidney Center. Materials relating to that field trip follow:

September 14, 1981 NKC-81-583

Robert Helms
Deputy Assistant Secretary
Planning and Evaluation
Dept. of Health and Human Services
415F Hubert Humphrey Bldg.
200 Defense Avenue SW
Washington, DC 20201

Dear Bob,

As you know, I was recently a member of a group of advisors asked by the National Institute of Arthritis, Diabetes, Digestive and Kidney Diseases to review their research projects in the kidney program and to advise for the future. As in our recent conversation you stressed the concern of the Secretary about this area of research, I thought it appropriate to write you my comments which you may share as you wish.

First, I am very supportive of the concept that basic research must be well supported if discoveries are to be made which ultimately will have the effect of reducing the incidence of end-stage renal disease. Consequently, I would urge continuing adequate support of NIADDKD.

However, I have some specific recommendations with regard to chronic renal failure. These come from my concern as to the amount of money that is now being spent on research related particularly to dialysis. At this time, NIADDKD spends approximately $4.5 million on research related to chronic renal disease. Much the largest portion of this money is split roughly equally between research into transplantation and research into the consequences of kidney failure and uremia. In addition, much basic research related to the immunology of transplantation is supported from other institutes. There is clearly a relative paucity of support for dialysis-related projects. In part, at least, this relates to phasing out of the Artificial Kidney/Chronic Uremia Program as NIH policy in the last two to three years and the increased reliance on grant rather than contract support for most research. However, the AK/CU Contract Program over the past 10 years was responsible for much of the research which developed improvements in dialysis techniques, membranes and materials, blood access, and the development of intermittent and continuous ambulatory peritoneal dialysis. Now there is little comparable research being supported through the NIH. In part, this is because the dialysis community believes there is little to be gained by submitting grant applications to NIH because it is likely that they will fare poorly in comparison with more basic science research projects. I am not saying that this is the only problem, but nevertheless, this is perceived to be a problem by the dialysis community.

In addition, I am concerned that there appear to be instances where necessary studies related to end-stage renal disease and to the ESRD Program fall between NIH and HCFA with neither agency really being responsible. Furthermore, HCFA does not really have the expertise to develop and assess some research programs.

Finally, I am concerned that it is likely that Network Coordinating Councils will be eliminated within the next year or so, and that then we will be left without a national ESRD data collection system.

Because of these concerns, I would like to suggest that the time has come to explore the development of a new contract program specifically aimed at research relevant to the ESRD Program. Funds for this could be obtained from the NIH, HCFA, and from other agencies which have an interest in the ESRD Program, such as the Food and Drug Administration, the Center for Disease Control, and perhaps the National Institute for Health Care Technology. I believe that consideration should be given to developing a new contract program, administered by the NIH, with appropriate peer review, and with an advisory group appointed by the institutions concerned. This advisory group could identify areas worthy of research related to the ESRD Program, areas not restricted only to medical and technical issues, but including social, psychological, financial, and ethical issues. The group would advise on priorities with regard to these. Requests for proposals for such studies could be issued. This would give opportunity for the development of good research studies in such areas as renal nutrition, demanded in the recent Budget, rehabilitation, the economics of renal failure, membrane surface interactions, cause of symptoms occurring during dialysis, etc.

A further advantage would be that such an advisory group would also be available to HCFA to provide technical consultation as required.

I would would welcome your thoughts with regard to this idea and, in particular, any suggestions you might have as to how this might be implemented.

Best wishes.

Sincerely yours,

Christopher R. Blagg, M.D.
Director

CRB:mjs

RECOMMENDATIONS TO NATIONAL INSTITUTES OF ARTHRITIS, DIABETES, DIGESTIVE, AND KIDNEY DISEASES REGARDING THE KIDNEY/UROLOGY PROGRAM

Christopher R. Blagg, M.D.

My comments will relate specifically to the area of research on Cchronic renal disease leaving to others the question as to whether, as I suspect, there is too much emphasis on sodium and transport relative to other areas in the remainder of the program.

As I examined the abstracts of the Chronic Renal Disease Program, I was struck by the relative absence of studies related to dialysis, in contrast to the $2 million or more of projects related to transplantation. As we are all well aware, the ESRD Program costs more than $1 billion each year, but the great majority of patients are treated by dialysis, and unless there are significant changes in transplantation, the majority of patients will continue to be treated by dialysis for the foreseeable future. Transplantation also receives significant support from other NIH programs, particularly in relation to basic mechanisms. Therefore, I would submit that NIADDKD gives a disproportionate amount of transplant support and insufficient support to dialysis-releated research. This appears to be particularly so in the area of organ perfusion, and I would recommend concentrating this research on long-term maintenance of organs as we already have techniques available for 24 to 48 hours of support.

With regard to the deficiency in dialysis research, reasons for this were addressed to some extent by Dr. Wineman in his presentation. However, in addition, it is certainly the perception of the dialysis community that since the AK/CUP contract program has been phased down, there is little if any point in submitting a research proposal related to dialysis, as this will have little or no chance of being funded.

With regard to chronic renal disease, there are a number of areas I believe worthy of support in the near future, but the most important is a pressing necessity to develop an effective end-stage renal disease data base. Failure of the ESRD Program to do this over the last several years is well known, and so within the last year, Network Coordinating Councils have been given much of the responsibility for data collection. I remain unconvinced that this will provide uniform, worthwhile national data, and it seems almost certain that Network Coordinating Councils will be phased out within the next year or so. This being so, I believe it most important that plans be made now to develop a reliable data system on a nationwide basis. I believe it would be appropriate for NIADDKD to coordinate this. Previously both the Transplant and Dialysis Registries supported by NIH were relatively effective, and so I would urge NIH to develop a proposal for a contract to take over national ESRD data collection by some outside agency such as a research institute or The American College of Physicians. The experience of the European Dialysis and Transplant Association, with more than 90% compliance from well over 1,000 facilities, in many countries, on the basis of a once-a-year survey, should be kept in mind. I believe it is urgent to develop this data capability so that there is not a further gap in national information.

I also believe there is need for more dialysis-related research. I realize that there were many problems with the old Artificial Kidney/Chronic Uremia Contract Program, but nevertheless this was responsible for the development of both intermittent and continuous ambulatory peritoneal dialysis, many of the developments in equipment and membranes in the early days of dialysis. and many other areas of research.

It seems that the Secretary of the Department of Health and Human Services has responsibilities to Congress with regard to studies from time to time, such as the proposed study on renal nutrition and the previous study on dialyzer reuse. Also HCFA from time to time needs information on treatment modalities such as, most recently, continuous ambulatory peritoneal dialysis and, in the case of transplantation, the role of antilymphocyte globulin and of lymphocyte depletion. Consequently, I would like to suggest that the National Institutes of Health, the Health Care Financing Administration, the Food and Drug Administration, and the Center for Disease Control, all of which are agencies with an interest in various aspects of the ESRD Program, should coordinate together and establish funding for a new contract program for research related to end-stage renal disease, particularly dialysis. I would suggest that such a program be administered through the National Institutes of Health, and I would envisage an advisory group to advise with regard to topics for study. In addition to research related to treatment, such topics could include subjects such as rehabilitation and the social, economic, and ethical issues related to the ESRD Program. The advisory group could establish the areas worthy of investigation, and appropriate requests for proposals could be developed. There could be a separate peer review process. The advisory group could also serve in an advisory capacity to HCFA and the Secretary with regard to the ESRD Program. Such a unified approach would, I believe, be beneficial both to the ESRD Program and to research in the area of dialysis.

Another area which merits careful consideration is the development of further information on the natural history of renal disease and its progression. This ties in with ESRD data collection and is another part of the need for better information on the epidemiology of renal disease generally. Consideration should be given to the development of appropriate studies following large numbers of patients over time.

From my recent discussion with Bob Helms in the office of the Assistant Secretary for Planning and Evaluation, it was obvious that Health is interested in research, both from short- and long-term points of view. For the long term, they must be encouraged to continue to support basic research into kidney disease at an appropriate level, but I think the importance of short-term research related to dialysis and the collection of more and better data should also be stressed.

ETHICAL APPROACHES TO ESRD CARE IN THE NEW ECONOMICS

by CRBlagg, MD

Based on comments made in a panel discussion at the recent National Kidney Foundation meetings.

Examination of trends in the ESRD patient population over the last 5 years are revealing (Figure 1). Significantly, despite the increase in total dialysis patients, the number of home hemodialysis patients has not changed significantly, and almost all the increase, from 13.1% to 14.6%, in home dialysis patients in the last year results from continuous ambulatory peritoneal dialysis. What makes this even more significant is that much of this increase is a result of patient pressure.

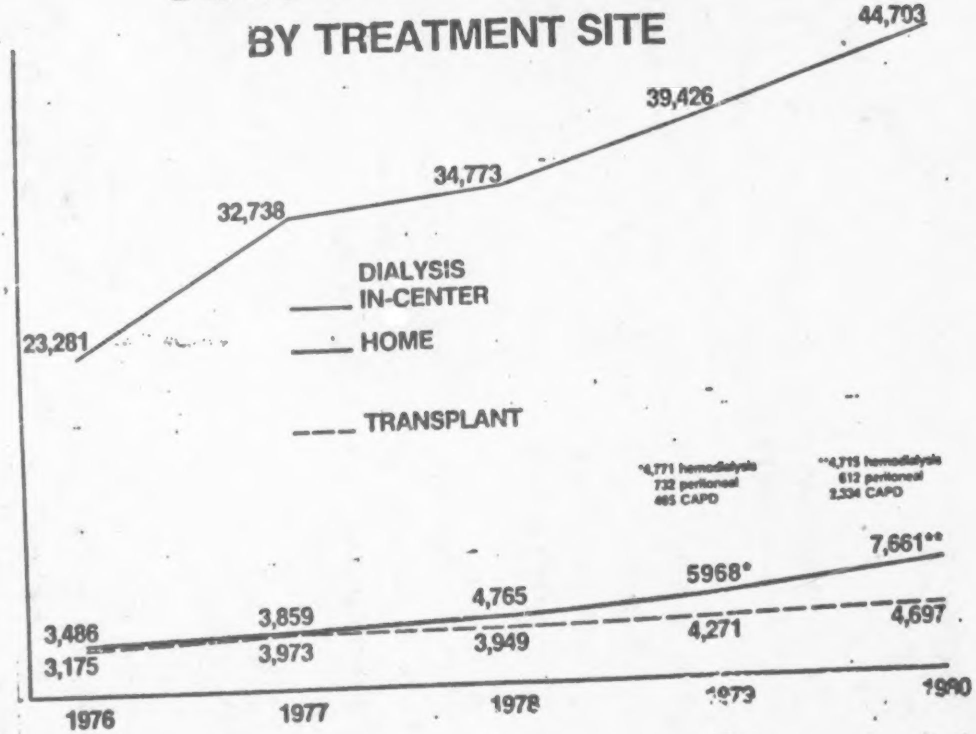
Why has home dialysis declined since the Medicare End-Stage Renal Disease Program in 1973? The answer lies with federal funding which, in addition to providing almost universal access to care, has had a number of effects on provision of care.

Patient Population

One major result of the federal policy is the change in patient population. Drs. Evans, Bryan and I reported on this in JAMA earlier this year, comparing a survey of dialysis patients carried out in 1967, which included 93 of the then 111 centers and 689 patients (81% of the total being treated in the United States in 1967), with a survey of 469 patients obtained by weighted sampling on a nationwide basis for the Research Triangle Institute study of dialysis in 1978. The changes in patient population since the Medicare program are striking.

Figure 1

DISTRIBUTION OF PATIENTS BY TREATMENT SITE



13.0 10.5 12.1 13.1 14.6 % ON HOME DIALYSIS

As Table 1 shows, there has been a six-fold increase in the percentage of patients over the age of 55 treated in the program. At the Northwest Kidney Center, the average age of new patients has risen steadily and is now between 50 and 55.

Table 1
SOCIAL AND DEMOGRAPHIC CHARACTERISTICS
OF THE HEMODIALYSIS PATIENT POPULATION

Characteristics	Population 1967,%	1978,%
Age, yr		
<25	8.0	3.4
25-34	24.0	10.0
35-44	32.0	14.6
45-54	27.0	25.8
≥55	7.0	45.7
Unknown	2.0	0.5

There has been a dramatic change in the sex distribution of patients, as shown in Table 2.

Table 2
SOCIAL AND DEMOGRAPHIC CHARACTERISTICS
OF THE HEMODIALYSIS PATIENT POPULATION

Characteristics	Population 1967,%	1978,%
Sex		
Male	75.0	49.2
Female	25.0	50.8

With regard to race, the percentage of black patients has increased by almost 5 times (Table 3).

Table 3
SOCIAL AND DEMOGRAPHIC CHARACTERISTICS
OF THE HEMODIALYSIS PATIENT POPULATION

Characteristics	Population 1967,%	Population 1978,%
Race		
White	91.0	63.7
Black	7.0	34.9
Other	2.0	1.4

Prior to 1967 few patients fell in the category of separated, divorced or widowed. Now (Table 4) these account for 25% of all patients.

Table 4
SOCIAL AND DEMOGRAPHIC CHARACTERISTICS
OF THE HEMODIALYSIS PATIENT POPULATION

Characteristics	Population 1967,%	Population 1978,%	
Marital Status			
Single	16.0	13.0	
Married	79.0	61.8	
Separated	5.0	6.3	25.2
Divorced		7.4	
Widowed		11.5	

As for education, Table 5 shows a three-fold increase in patients whose educational level was junior high school or less since the Medicare program.

Table 5
SOCIAL AND DEMOGRAPHIC CHARACTERISTICS OF THE HEMODIALYSIS PATIENT POPULATION

Characteristics	Population 1967,%	 1978,%
Education		
Junior High School or less	10.0	28.7
Some High School	17.0	17.2
High School Graduate	27.0	28.4
Some College	20.0	18.2
College Graduate	12.0	5.7
Postgraduate School	13.0	1.8
Unknown	1.0	0.0

There has also been a striking change in employment status, so that the percentage of patients employed has more than halved, and the category of patients classed as disabled, student, and retired has increased by 4½ times (Table 6). This reflects both the change in population medically and also the ease with which Medicare disability status is granted.

Table 6
SOCIAL AND DEMOGRAPHIC CHARACTERISTICS OF THE HEMODIALYSIS PATIENT POPULATION

Characteristics	Population 1967,%	 1978,%	
Employment Status			
Employed	41.7	18.4	
Unemployed	38.3	17.7	
Disabled	13.2	53.6	63.8
Student		Not coded	
Retired		10.2	
Other	0.0	0.1	
Unknown	6.8	0.0	

With regard to diagnosis, the most significant change (Table 7) is the striking increase in diabetic patients treated. In our program, 20% to 25% of all new patients have diabetic nephropathy as the cause of their renal failure.

Table 7
PRIMARY DISEASE BY FIVE-YEAR INTERVALS
FROM 1962-76 AND 1977 TO 1979

Primary Renal Failure Diagnosis	1962-66	1967-71	1972-76	1977-79
Chronic glomerulonephritis	58.3%	38.1%	39.8%	31.0%
Diabetic nephropathy	0.0%	3.7%	10.4%	18.2%
Nephrosclerosis	1.7%	5.9%	10.0%	14.5%
Polycystic kidney disease	15.0%	12.4%	11.2%	8.9%
Congenital	0.0%	2.6%	2.0%	3.9%
Pyelonephritis	5.0%	3.7%	5.0%	2.5%
Other	20.0%	33.6%	21.6%	21.0%

Financial Effects

There are also major financial effects of the Medicare reimbursement system, but before commenting on them, I would like to comment that two serious problems for all of us have been the lack of an adequate data system to monitor what is happening with the ESRD Program and the lack of ability of the Health Care Financing Administration to manage the program appropriately.

Turning to the financial problems associated with federal funding, this has resulted in several significant changes:

A. Initially, the ESRD Program included financial disincentives to home dialysis, with some items not being covered, while at the same time the original "screen" method of reimbursement provided an incentive to outpatient dialysis. The screen, although this has served to contain costs, nevertheless initially was extremely profitable, thereby encouraging development of outpatient dialysis and, in particular, development of profit-making dialysis corporations which now treat almost 40% of patients in the United States. Thus Dr. Relman has grounds for concern about the "medical-industrial complex."

B. As a result of this generous funding, there have been significant increases in the number of nephrologists trained and the number of dialysis stations established. Because dialysis stations, like hospital beds, have to be used to be financially productive, and because there are more nephrologists, this has resulted in increasing competition for patients and is in part responsible for the treatment of marginal patients, patients from nursing homes, etc.

C. In addition, there has been a significant change in the attitude of providers since federal funding became available. Prior to Medicare, we all attempted to cut costs in every way that was compatible with good patient care. However now, with Medicare paying most of the cost of treatment, and with dialysis facilities developing more sophisticated administrative skills, the emphasis is on how to maximize reimbursement to the greatest extent legally possible, either for profit or because of concern as to what the future might bring.

For-Profit Dialysis

What has been the effect of the increase in proprietary dialysis on the ESRD Program, apart from increasing access to treatment? Dr. Gardner recently reported in the New England Journal of Medicine a comparison of the percentage of for-profit units in a Network and the percentage of patients treated by home dialysis or transplantation. Correlation-regression plots showed that the more for-profit units there were in a Network, the lower the rate of home dialysis and transplantation. Correlation was poor ($r = 0.04$ or less), but the probability figures ($p<0.02$ by the Student t test) showed that there was a less than 1 in 50 chance that the variables were not related. He believed that this relationship was an effect of the voting blocks of proprietary units in some Networks which may result from the democratic structure of representation on the Network Coordinating Councils. Dr. Gardner's results are shown in Figure 2.

Do for-profit facilities have an impact on home dialysis? The answer is clearly--yes. Table 8, based on HCFA data from December, 1980, shows the difference in use of home dialysis between for-profit and not-for-profit facilities. Of course this is not to say that individual for-profit units may not have significant home dialysis programs, but the overall difference is striking.

Table 8
HOME DIALYSIS AND FOR-PROFIT FACILITIES

	Total Patients	% on Home Hemodialysis	Total % on Home Dialysis
For-Profit	19,936	6.0%	7.6%
Nonprofit	31,634	20.4%	26.7%

Figure 2

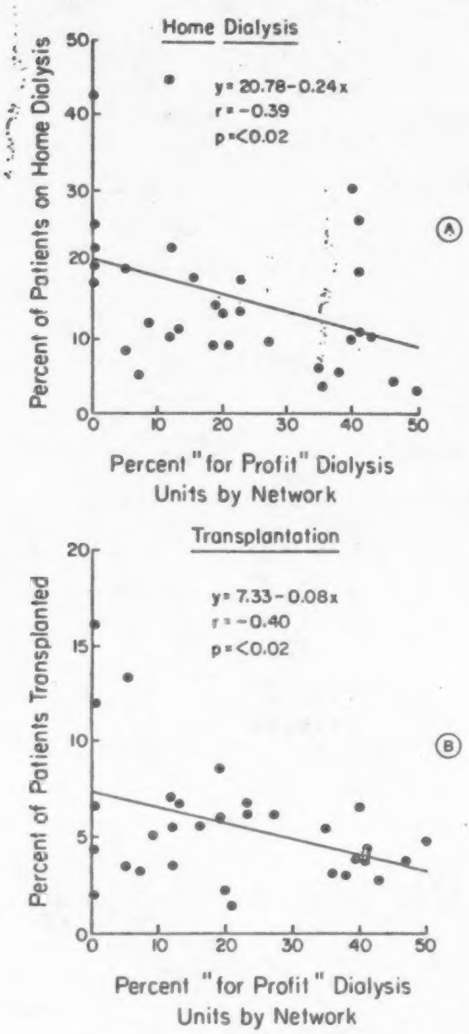


Figure 1. Correlation-Regression Plots Derived from HCFA Data.

Cost of Dialysis

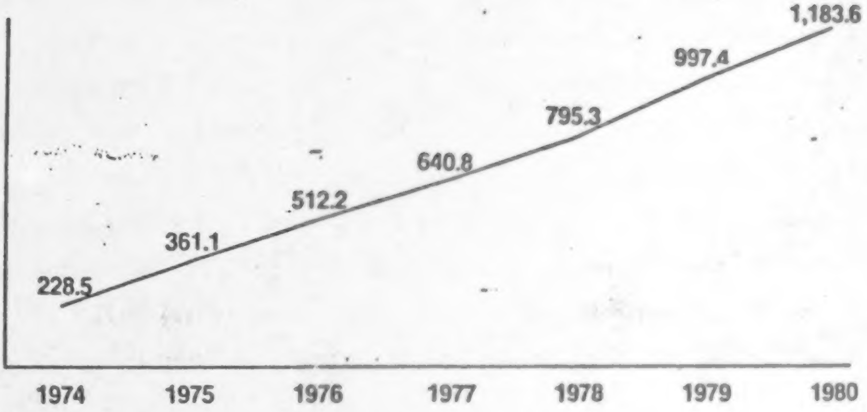
What about the cost of home dialysis? Is this less than the cost of in-center dialysis? This has been the subject of debate in the past. Table 9 shows the cost of home dialysis at the Northwest Kidney Center based on a recent audit by the Inspector General's office on behalf of the Health Care Financing Administration. These costs are appreciably less than the cost of outpatient dialysis. It should be commented that the cost of home supplies are low because we reuse dialyzers to a significant extent in the home hemodialysis program and we use peritoneal dialysate concentrate from the University of Washington. No information is included on the cost of continuous ambulatory peritoneal dialysis in our program because the number of patients included in the audit was small. However, CAPD would appear to be more expensive than either home hemodialysis or home IPD. Its medical role still remains to be determined.

Table 9
COST OF HOME DIALYSIS - NKC 1980

	Hemo (per dialysis)	IPD (per dialysis)
Home Support	$ 0.70	$ 3.04
Admin. & General	10.66	10.73
Home Supplies	38.48	39.84
Home Equipment	10.71	12.53
Equipment Repair	4.77	5.93
Total Cost	$65.32	$72.07

Figure 3

ESRD PROGRAM PAYMENTS (in millions)



No. ESRD PATIENTS	1974	1975	1976	1977	1978	1979	1980
	NOT AVAILABLE		29,842	40,570	43,487	49,638	57,061

Of course the criticism is always made such cost data as shown above depend on accounting, and one may bury various costs elsewhere. However, these cost figures are likely to be accurate, based on other information from the Health Care Financing Administration. In Washington State for the years 1977 through 1979, the total Medicare reimbursement per ESRD patient (including transplantation) was only 71% to 83% of the national average. Part A reimbursement for hospitalization equaled or exceeded the national average by as much as 15%. However, Part B reimbursement, which pays for both outpatient and home dialysis, averaged about 70% of the national average. At the same time, more than 50% of patients in Washington were treated by home dialysis, as compared with between 11% and 14% nationally. I would submit that the only possible explanation for this difference, particularly when the cost of outpatient dialysis at most Washington facilities is higher than the screen level because of exceptions, is that home dialysis does in fact cost less than in-center dialysis.

Funding and the Future

Everyone is concerned about the total cost of the ESRD Program. Figure 3 shows the HCFA estimate of the cost of this program since its inception. Even though the cost per patient may not be increasing if one looks at dollars adjusted for inflation, nevertheless, increasing pressure from development of other new and expensive treatments must cause concern. Hiatt, in an article in the New England Journal of Medicine some years ago, discussed the "medical commons"--the concept that there is only so much money that society will pay in toto for all health care services, and this has to be divided up. This raises serious problems. The Office of Health Economics in London has commented, "The existence of shortages is inherent in any system of medical care, which is more or less 'free at the point of access' and which nevertheless permits unlimited scientific innovation and progressive advance in the quality and scope of care which can be provided for its patients." At this time, we continue to see development of new high-cost technologies and treatments, and this, in conjunction with the availability of federal and private insurance and other forms of payment for health care for many individuals, increases the problem. There are only a limited amount of resources available for health care. Clough has recently pointed out that in the United States at this time, 80% of the health care monies are used in relation to chronic diseases, 25 million Americans have some dysfunction as a result of chronic disease, and more than 10 million Americans have serious disability problems.

All this leads, of course, to the question of the decision making process to distribute funds when these are limited. Dr. Evans and I have discussed this recently, and we believe that the issue can be judged more rationally by dividing it into two parts--allocation and rationing. The dictionary definition of allocation is "to set apart for a specific purpose; or to distribute according to a plan." Rationing is defined as "a fixed portion; an allowance, a fixed allowance for provisions."

In health care, we believe that allocation should occur prior to rationing, should apply to the program rather than to individual patients, and is subject to the political process. Rationing, on the other hand, is used to discriminate between treating some rather than other patients, all of whom may be eligible for resources that have been allocated. Rationing should be a medical process.

Figure 4

STAGES OF RATIONING (MECHANIC)

	Physician role	Medical practice
Rationing by fee	Entrepreneur	Market-oriented
↓	↓	│
Implicit rationing	Expert in apportioning scarce resources	│
↓	↓	↓
Explicit rationing	Bureaucrat controlled by central authority	Rationalized bureaucracy

Mechanic has considered these problems and states that "techniques of rationing are in process of transition and most countries have yet to reach a reasonable end-point in this transitional process. The process is one of movement from rationing by fee through a stage of implicit rationing through resource allocation to a final stage of explicit rationing." Figure 4 shows the progressive stages of rationing as envisaged by Mechanic. Presently, we are probably on the road to the second stage.

Are we in fact treating patients that would be better off not treated, and is this because of availability of funding? Most of us would agree that some very marginal patients are being treated. The paper of Gutman et al. on rehabilitation, published in the New England Journal of Medicine earlier this year, may overstate the case but nevertheless raised this issue publicly for the first time.

Whether we like it or not, we are likely to be pushed by restrictions in allocation to the possibility of implicit rationing in the future. Such has always been the case in Britain, where treatment decisions are made by the physicians. Unfortunately, the effects of age or of medical complications in ESRD patients tend to be a continuum, and there is no criterion on one side of which we can say treat patients and on the other side of which we can say do not treat patients. Nevertheless, rationing already does occur: Hospitals ration beds, physicians ration their time for individual patients, and even today we do not treat all patients who die with renal failure.

However, before we get to implicit rationing, it is imperative that we explore the maximum use of cost saving in all modalities of treatments. This includes encouragement of reuse, learning from for-profit units about more efficient operation of facilities, greater use of home dialysis and transplantation, and avoidance of intermittent peritoneal dialysis except at home because this is so expensive in a center.

Can we afford to give patients freedom of choice of therapy, or can we apply pressure to make those who can, in fact, go home? In our own program, probably half the medically stable patients in our Limited Care area could do home dialysis if they wished to do so.

The philosophy of the ESRD Program should be that "the adjustment and rehabilitation of patients with any chronic disease are improved by giving them a full explanation of their disease and its treatment and as much of the responsibility of their treatment as they can accept." This is a philosophy to which most of us can subscribe.

A major step that we can take to avoid implicit rationing of resources for the treatment of end-stage renal disease in the future is to increase the use of home dialysis in the United States. This would also improve the overall care and opportunity for rehabilitation of a significant number of patients now dialyzing in dialysis facilities.

Seattle: Because of regular treatment sessions with the artificial kidney machine, these five sufferers of kidney disease are able to lead remarkably near-normal lives—as a dental assistant, teacher, sales manager, welder, and junior race driver.

The Man Who Said, "They Don't Have to Die"

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by W. C. HEINZ

Belding Scribner was absolutely convinced he could keep dying kidney patients alive if he could get repeated access to their blood. So he recruited a young surgeon and an engineer, and they made it work.

THIS IS THE STORY of an idea that made medical history. And while such a story has many beginnings, let one of them be in Seattle, Washington.

It was Christmas of 1959 and Clyde Shields was dying. He was a 39-year-old machinist, with a wife and three school-age sons, and he had been told he had incurable chronic kidney disease.

"Emmy had known it for about six years," Shields recalled, looking over at his wife. "Our doctor had told her, but they had kept this information from me."

We were in the living room of the five-room bungalow in southwest Seattle where the Shields have lived for 27 years. Clyde sat in an upholstered reclining chair, his wife across from him, gray-haired, a sweater over her shoulders.

"It was difficult," she said, her voice soft and her eyes clouding. "I don't know, but I just couldn't see the point in telling him, as long as there was nothing to be done. I just tried not to think about it."

Now Shields picked it up. "It finally got so bad," he said, "that I just couldn't get up any more and go to work. Then our doctor said: 'Clyde, there's no doubt you've got glomerulonephritis.' I said: 'How bad is that?' And he said: 'By God, people die of it.' "

It was just before Christmas, he recalls. "Emmy had invited her parents, but our money had run down. Rather than have a flat Christmas—and it might be the last—we went to the bank and borrowed $400. When her parents came we didn't tell them, and we had a real nice Christmas."

That same Christmas in Seattle two other men, who also were destined to become important in an experiment yet to be devised, were similarly dying of chronic kidney failure.

Harvey Gentry was 22 years old, married, and father of two small children. He worked as a shoe salesman.

"I had two doctors tell me what I had," he says, "but nobody told me I was going to die."

"Your mother and I knew," said Beverly, his wife. "We had a letter from that doctor in Tacoma, and he said he didn't expect you to live more than a year."

Rollin Heming, that Christmas, was 28 years old. Unmarried, he worked as a plastic molder. When doctors told him his fate, he took it with extraordinary equanimity.

"I was just tired out, and I went into the hospital. It took them three weeks before they found out what the trouble was. Then they told me I'd better keep my things in order, that my kidneys were going bad and probably wouldn't hold up over six months.

"It's hard to say what I thought," he said. "Maybe I didn't think I was really going to die. Maybe I thought somebody would think of something. In a month I just lost all my muscle and they had to lift me around."

At that time, Belding H. Scribner had never heard of Shields, Gentry, or Heming—nor they of him. He was 38 years old, professor of medicine at the University of Washington, married, and the father of four children. Then came the night his sleep was interrupted by an idea that would astound the medical world.

"It was January of 1960," Doctor Scribner recalled, "and I woke up with the idea in the middle of the night. Actually, I wake up like that quite often. I do my best thinking at four a.m."

This may be understating it, for that particular interruption evolved into a revolutionary medical-surgical treatment. It would save the lives not only of Shields, Gentry, and Heming, but of thousands of other chronic kidney patients throughout the world.

Doctor Scribner occupies a cluttered shoebox of an office at Seattle's University Hospital. He is a mild-mannered, soft-spoken, bespectacled man who dresses and lives casually, enjoys listening to Beethoven, Brahms, and Wagner and constructing power-driven model airplanes. His father was an aeronautical engineer, his mother a journalist, and he came to medicine, he says, because as a child he was a sickly asthmatic and saw what medical science could do.

Later, he was to owe another personal debt to medicine. In 1945, Belding Scribner was losing his sight. In two operations, spaced four years apart and performed at New York's Manhattan Eye, Ear, and Throat Hospital by Dr. R. Townley Paton, his sight was saved by corneal transplants. When Scribner's sight was saved so were his career and, as it turned out, the lives of Clyde Shields, Harvey Gentry, Rollin Heming, and the others who followed.

"I was grateful," said Doctor Scribner, who acknowledged that his own medical motivation isn't sparked by *fire inside*. "I'm not a Christiaan Barnard. We're at opposite ends of the spectrum."

Kidneys are complex organs that cleanse the blood, maintain the chemical balance of the body, and maintain normal blood pressure. When they fail, the artificial kidney machine performs the same functions. It does this by circulating the patient's blood between semipermeable sheets of cellophane suspended in a box-like container filled with a wash solution.

Kidney machines—or hemodialysis units—are not new. The first crude prototype was built at Johns Hopkins in 1912, with the first successful use on a human occurring in Holland in 1943. But they could be employed only in cases of acute kidney failure. The reason for this limitation was a simple one. To connect a person to a machine, an artery and a vein, usually in the patient's forearm, had to be opened. After treatment, it was necessary to close this site, rendering it unsuitable as a future point of entry. As chronic patients would need to be dialyzed on an average of three times a week, obviously it was unfeasible to open a new site each time.

"That January," Scribner recalls, "we had this patient from Spokane. We thought he had acute renal failure. He was almost dead, so we put him on the artificial kidney. Within a week he was back to normal, but he had passed no urine. He had nephritis, which had destroyed his kidneys, so I sat with his wife and told her that he'd have to die a second time.

"He died, and that's why I woke up in the middle of the night with the idea of how to save these people. I thought we could do it if we could put a tube in an artery and a vein and keep it open by hooking the two tubes together to create a high blood flow shunt."

Next morning, the first person Scribner spoke to at University Hospital about his idea was David H. Dillard, then a 36-year-old surgeon and associate professor, now full professor, at the University of Washington Medical School.

"Scribner stopped me in the hallway of Four East," Dillard recalls now. "He said he was absolutely convinced that, if he got repeated access to a patient's bloodstream, he could keep him alive. I said: 'Let me think.' We had a second meeting, and then we contacted Quinton."

Wayne E. Quinton, now head of Quinton Instruments, Seattle, was then a 42-year-old engineer employed by the medical school. He became an engineer, he says, "because mechanical things always fascinated me and I like to build." He was on the scene when Scribner and Dillard needed him because in 1949, out of a job, he had answered a newspaper advertisement "for an electronics technician in the University's Department of Physiology.

"As I was walking to Physiology Hall to apply," he recalls, "I was trying to remember what the word meant. They also had art and architecture in there and, just as I walked in, this gal modeling in the nude ran across the hall. That didn't give me any clue."

These three, then—Scribner, Dillard, and Quinton—in the weeks that followed, worked single-mindedly at the project. Their goal: to devise equipment and arrive at a procedure for placing plastic tubes—or cannulas—in a patient, connecting them with a Teflon shunt, remove the shunt to connect the patient to the artificial kidney machine, and then replace the shunt to maintain circulation after the patient had been dialyzed. An indication of the radical and startling nature of this project is the reaction at the time of Jerry P. Pendras.

Pendras, in that January of 1960, was a 28-year-old resident physician on the staff of Cook County Hospital in Chicago. He had applied for a fellowship to work with Doctor Scribner, and he will never forget the response.

"I got this letter back from him," he recalls, "that said: 'We're going to be working with people with end-stage kidney failure, trying to keep them alive with the artificial kidney.' Now, I was in a medical community where they knew everything new that was being explored, and no one had even surmised this. To be perfectly frank, it made the hair at the back of my neck stand up."

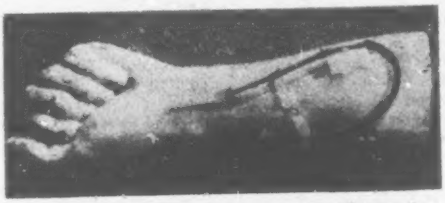
Scribner, Dillard, and Quinton were still only theorizing, of course, and they would be until they could put their theories to test. What they planned to do could not be proved on a laboratory animal. They needed a patient. And although he didn't know it, Clyde Shields, by then only weeks from death, was to become that patient.

With understandable clarity, Shields remembers the first time he and Doctor Scribner met: "I was going to the University clinic, but I was runnin' down hill again. I didn't know it, but they were contemplating and planning this thing for me, and I was rushin' them.

"One day I was there, waiting to be seen, when I saw this man come down the hallway and look at me with more than usual concentration and then go down the hall and come back and look at me again. He had on one of those white coats, but some time or other it had been mixed up with some acid in some lab and had holes burned in it. I thought he might be some housekeeping help around there, but a few days later the docs went out and brought him back in.

"It was Doctor Scribner, and he said: 'I'm thinking about putting you on the artificial kidney.' Then he called in my wife and told her it had never been done before. When she came home and told me, I said: 'You tell those people they can do anything they want to. We can't lose, and we've got everything to gain.'"

At eight o'clock on the morning of March 9, 1960, a Wednesday, on the fourth floor of University Hospital, Doctor Dillard performed a minor surgical operation on the locally anesthetized left forearm of Clyde Shields. He opened an artery and a vein, inserted a cannula in each, and Quinton connected the two outside the skin with a U-shaped Teflon shunt. (Teflon



Scribner's shunt was conceived to get repeated access to a kidney patient's blood—and thus cleanse it mechanically.

Belding Scribner (with glasses) with three pioneering patients (left to right) Rollin Heming, Clyde Shields, and Harvey Gentry.

Engineer Wayne E. Quinton provided mechanical know-how to make idea work.

Dr. Jerry P. Pendras: "project made the hair at the back of my neck stand up."

Mrs. Susan Helm, mother of first home dialysis patient, now tries to help others.

was chosen for the same reason it is used to coat frying pans—its resistance to sticking. "We were lucky this material was available," says Doctor Scribner, "because blood does not clot in it.")

The procedure took about two hours. That afternoon, as Shields remembers it, "they rolled in the dargondest trapped-up rig you'd want to see." It was an artificial kidney machine, and they removed the shunt from Shields' arm, connected the artery and vein tubes to the machine, and Shields became the first chronically ill and dying human to have his life saved and subsequently sustained indefinitely by an artificial organ.

"I just lay there and let 'em do what they were gonna do," Shields said "That first run took so much of that waste I'd stored up out of me that it was just like turning on the light from darkness."

This success, of course, also "turned on the light" for thousands of others who were similarly doomed to die of kidney disease. Two weeks later Harvey Gentry was cannulated and shunted, and he was kept alive by the machine until two years ago he received a successful kidney transplant from his mother. The third patient was Rollin Heming, who is still on the machine and hoping for a transplant.

With three chronic kidney patients successfully cannulated, shunted, and sustained by the kidney machine, Doctor Scribner now ran into a problem he had not foreseen and that still confounds and frustrates him. He took Shields and Shields' wife to Chicago to an annual meeting of the American Society for Artificial Internal Organs. There he optimistically presented Shields as living proof that chronic kidney patients could be kept alive in reasonably good health.

"It was a bombshell," said Jerry Pendras, "I can recall studying in grade school how anyone who came up with a new and radical idea was laughed at—like Galileo—but I thought that was just history. It couldn't happen in our time, but Scribner was laughed at. How would they know? No one had tried it. He had the guts to."

"Every one of these doctors," says Scribner, "had watched uremics die, so when you suddenly come up with the answer they can't believe it."

A year later, at the next annual meeting of the same organization, Doctor Scribner received a standing ovation, but he remembers the two years following the experiment on Clyde Shields as the most difficult of his life. The original apparatus with which he and his associates were working was so crude that one of its components was a Sears Roebuck deep freeze mounted on wheels and wrapped in insulation and a blanket. At one time, in an attempt to get enough negative pressure to apply a vacuum to the dialysate compartment of the machine, they hung a rubber hose out of a fifth floor window, but that experiment was terminated after a week by the hospital administrator to preserve the ornamental shrubbery below.

Infections hampered the treatment of the early patients. "Clyde developed about six diseases in order," said Scribner. "We had to develop a cure for each, and we didn't do it right away." One of those ailments was a disorder of the bones, and as a result Shields, who used to stand a little more than six feet, now stands a little less than five, eleven. Harvey Gentry stands either five, nine or five, six depending on which leg he is resting, because following his transplant he lost to infection the head of a thigh bone.

An additional drawback is the necessity to find new points of access to a patient's blood, since the sites where the cannulas are implanted on forearms and legs deteriorate after anywhere from several months to several years. Each of the original trio has been re-cannulated between 40 and 50 times.

Getting off the ground, however, involved more than solving just the medical and mechanical problems. When it became obvious that the Scribner method was going to keep dying renal patients alive, it also became obvious that the University of Washington could not handle the service aspects of the program. Doctor Scribner took this problem to the King County Medical Society, and Swedish Hospital was selected as the site of the world's first kidney center. Then, as the word spread that Seattle held the secret of life for chronic kidney disease sufferers, it became apparent there would be more applicants than the center could handle.

In 1961, the Seattle Artificial Kidney Center (now the Northwest Kidney Center) was able to service nine patients, a number that was stretched, within months, to 12. For every opening, however, there were five medically acceptable applicants. So, to decide who should be allowed to live and who would not, there was formed what came to be known as "The Life or Death Committee." It then became, from 1962 to 1966, the formidable responsibility of a minister, a housewife, a lawyer, a banker, a state government official, a labor leader, and a surgeon to "play the role of God."

The committee members served without pay and, during the lifetime of the committee, remained anonymous, as did the patients whose cases were considered. Voting had to be unanimous. For the losers, defeat meant death.

"Naturally we discussed each case very thoroughly," says Edward L. Rosling, the lawyer who served as chairman. "And I never put one to a vote until I could sense what the vote was going to be, and that it would be unanimous. I think it was a very proper organization, because somebody had to do it."

Basically, the committee tried to pick patients with the highest potential of service to society. As difficult as that may seem, even on the surface, it was further complicated by other factors: sex, marital status, number of dependent children, and what resources were available to them if the parent were rejected. The sole female member of the committee, Mrs. F. Bartow Fite, Jr., now a grandmother of 13, still lives with the haunting memory of that awesome responsibility.

"It was a terrible thing that had to be done," she said, "and I hope never to have to do anything like it again. To me there was just something kind of wrong about it."

The Rev. John B. Darrah, of Seattle's Magnolia Lutheran Church, served on the original committee and is today a member of the five-man Admissions Advisory Committee that replaced it and of the board of trustees of the Northwest Kidney Center. He is 54, tall and slim, and on his desk there is a sign that reads: "Bless This Mess."

"None of us who served on that committee," he said, "asked to do so, and I think all of us sort of cringed under it. It took a lot out of us emotionally. On such a committee, you're not really deciding, though, who is going to die. That's already decided. What you're being asked to do is to assist in who is being given further opportunity for living."

The original selections committee was relieved of its responsibility four years ago when patients were taught to treat themselves, with assistance, at a machine at home. This lowered the cost per patient from about $20,000 a year to $13,000 for the first year and $3500 annually after that. And it made available more openings.

The first patient selected for home dialysis training was 16-year-old Caroline Helm, a high-school junior. She lived for three years to become president of her high-school honor society and to attend the University of Washington, and in those three years she pioneered the study that has made it possible to save four times as many patients.

"If you have 400 beds to treat these people in hospitals," Doctor Scribner said, "you can take care of 1200 patients. If you use those beds to train people to go home you can take care of 4800 a year.

"I'll never forget Mr. and Mrs. Helm —telling them that their daughter was going to die, that we wanted to try something, and that she still might die in their basement with blood all over the floor."

"It was Palm Sunday afternoon," Mrs. Susan Helm said, "when Doctor Scribner told Mr. Helm and me in that little office of his that Caroline was not old enough to be considered for the Kidney Center. He explained that the only way she could fit in was for us to agree to have her pioneer the feasibility study, and that there was no assurance that it would be successful if we wanted to take the chance.

"The home machine was still on the drawing board, and we were trained at University Hospital for six months in a windowless little room in a wing not being used."

The Helms converted the laundry room in the basement of their hillside home. They moved in a bed and the kidney machine with its dialysate tank, pumps, and control console.

"Every day was a crisis," Mrs. Helm remembers. "Once, the acetic acid didn't rinse out between treatments and she was getting it in her vein. She screamed and I just clamped her off, but that ruined that site. Then, once we threaded the blood pump wrong and the blood started forcing itself into the artery instead of the vein. Another time we had a piece of the blood pump tubing break and blood squirted all over the place.

"The cannulas were in Caroline's leg, and one day she was at the Hub, an eating place on the University campus, and she began to feel woory. A metal cannula ring had come loose, but she was still conscious enough to tell her friend to get a clamp out of her handbag and put it on, and then the kids called an ambulance.

"Caroline had had polio when she was three, with facial paralysis, and had a number of plastic surgeries. She had uremia and hepatitis, ulcers, pleurisy, arthritis, anemia, but she had an intense desire to keep going and had plotted a career in social welfare when she had a stroke.

"She used to say, when something would go wrong, that she wished she had someone else to talk to. That's what I try to provide now."

For the past three years Mrs. Helm has been employed by the Northwest Kidney Center as what she calls "a trouble shooter and sounding board." She is available to patients seven days a week and at all hours.

"It may be two or three o'clock in the morning when I get a call," she said. "It may be personal problems or cannula problems. Or perhaps something has gone wrong with the equipment and they have to do what we call 're-build.' . . . I just remember how thankful I was for the three years my daughter had."

For six years Clyde Shields was dying, and in all the world of medicine there was no cure until that morning of March 9, 1960. Since then he has watched two of his three sons marry, and he now has three grandchildren. He works as a machinist from midnight until seven a.m., and four times a week for nine hours he goes on the artificial kidney machine in his basement.

"The wife has it ready," he says, "and I get right on when I come home from work. She gives me breakfast, and I read the paper and go to sleep."

He used to enjoy trout fishing in the Cascades, back-packing in or going in on horseback. He hasn't been able to do that since 1958, but in good weather he takes a folding lounge out under the cedar and Douglas fir that stand on the front lawn, and he lies there where the trillium raise their heads in the spring and imagines, although he is only 10 feet from the road, that he is far away.

"Of course, in my book Doctor Scribner is a great man," he said. "He has me in to look me over every now and then, and I tell him: 'You know, I got to keep going, because your reputation depends on me.'"

Because of his hip, Harvey Gentry is

unable to work, but his wife works as a computer analyst, and he does all the cooking for the family. One day a week he teaches physical education at a parochial school. He also coaches a basketball team.

Because Rollin Heming was so sick at the start of treatment in 1960 that he developed leg paralysis, he has never been able to work. He waits, watching television and reading, for the matchup of a suitable kidney, dependent upon aged parents and a sister.

"At first," he said, "I suppose there was quite a lot of self-pity, but now I don't think about it one way or the other. I'm just glad to be alive."

From that nucleus of pioneer cases, the patient population at the Northwest Kidney Center has grown to 300. Throughout the United States, there are now about 3000 dialysis patients.

One Seattle home-dialysis patient who leads a life which is remarkably near-normal is Virgil Mahaffey, a 38-year-old district sales manager for an industrial electrical equipment company and father of two daughters. He was cannulated and went on the machine in 1967. Today, he works a five or six-day week, dialyzes at home every third night, and covers a tri-state territory.

"One day last year I was down in Phoenix," he recalls, "and I felt fine until I got to the airport, and then I collapsed on the steps going up to the plane. I passed out cold, and when they brought me around they didn't want to take me. I explained my problem and I told them: 'If you don't take me you're going to have a dead man on your hands.'

"They got me some cold cloths and they took me. I went to sleep, and in Seattle they had a wheelchair and a cab waiting to take me home. The driver helped me up the steps and into bed, and my wife put me on the machine. The next morning I had to be in Port Angeles on business, so I left the Seattle airport at 8:30, and I didn't get home again until six that evening."

This past spring, Mahaffey and his wife made their first trip to Europe. During the winter they wrote to 80 European kidney centers, explaining that he had to be dialyzed every three days and inquiring about costs. They received acceptances from 78 hospitals, five in Communist countries. Mahaffey was dialyzed in London, Amsterdam, Frankfurt, Munich, Basel, and Paris.

Today, 10 years after Belding Scribner proved that chronic kidney patients could be saved, he is still making medical history. Each year in this country several thousand patients suffering from bowel diseases die because their intestinal systems are no longer able to absorb solid foods. Recently, Doctor Scribner and another research team at the University of Washington announced the development of an artificial intestine through which patients now are able to inject essential nutrients into their bloodstreams without destroying the veins at the point of entry. Again, access is by means of an arteriovenous shunt.

This, then, should be a story with a happy ending, and Belding Scribner should be a man fulfilled as few men ever are. But neither is true. The truth is that in the United States today, as Dr. Samuel L. Kountz, associate professor of surgery at the University of California, San Francisco, explained last February to the Health Subcommittee of the United States Senate, most chronic kidney sufferers are still dying.

"Nine out of 10 patients with kidney disease, eight to 10 thousand a year," he told the committee, "are forced to die an elective death. This national crisis in medicine is unparalleled in our history, for never before has a proven lifesaving treatment been denied to so many primarily because of lack of money."

In the state of Washington, public support and the efficiency of the Northwest Kidney Center just about insures that no medically acceptable patient need die. Sixty percent of the center's funds, however, must still be derived from patient resources, and the cost can deplete a family's finances to the point where patients have been known seriously to consider rejecting treatment and accepting death instead.

"It's still a struggle," Dr. Christoper Blagg, executive director of the center, said. "There's only so much money and so many places, so do we take you now or wait for the 18-year-old? Scribner gave mankind this bonus, and now mankind can't come up with the money."

Federal funding has been inadequate, Doctor Scribner added, noting too that hospitals and medical centers have been slow in establishing adequate kidney centers and slower still in converting to home dialysis training programs that he believes could save four times as many patients.

Today, uniform donor cards, by which anyone may leave all tissues and organs, including kidneys, to medical science after death are legal in 44 states. It bewilders and saddens Belding Scribner that, in spite of this and in spite of the breakthrough he led in hemodialysis, each year thousands of kidney patients still die because of lack of suitable transplants or dialysis facilities.

"I just can't understand," he said, "why kidney patients are allowed to die today. All you have to see is one patient who could be saved and you're done in. I see a nice guy with a nice wife, dying of kidney disease and I wouldn't know what to say. I just don't understand it. The whole thing is wrong somehow." END

The Northwest Kidney Center

- The first and largest community kidney center in the world, Northwest Kidney Center offers care to all medically acceptable victims of total kidney failure. The Center coordinates artificial kidney machine treatment for patients from Western Washington and helps coordinate transplantation from Washington, Alaska, Idaho and Montana.
- Most dialysis patients are trained at the Center to operate their own home machine. The Center continues support and supplies thereafter. Home dialysis averages $7,000 a year . . . after costly stabilization and training. Patients receive a kidney transplant from a living relative or from a stranger who willed kidneys for transplantation after death. Expenses average $10-$20,000 for the operation and hospitalization. Appreciable expenses for medication and medical care continue.
- More than 100 new victims of terminal kidney disease apply to the Northwest Kidney Center each year. Financial support comes from Medicare, private insurance, state funds and personal resources but many patients require additional help to meet the high and continuing costs.

A concerned and generous public is their only hope for this support in many cases.

Northwest Kidney Center
1102 Columbia Street, Seattle, Washington 98104

The Output

Published by the Patient Association of the Northwest Kidney Center

Vol. VIII No. VIII

August 1981

DIRECT FROM THE DIRECTOR

by Christopher Blagg, M.D.

LAKE WASHINGTON KIDNEY CENTER

I am happy to tell you that we should be opening the Lake Washington Kidney Center in the middle of August with Dr. Quadracci as Medical Director. This facility, closely adjacent to the Overlake Hospital, will provide an alternative site for treatment for patients from the east side.

Any patients currently dialyzing at the Northwest Kidney Center who would be interested in dialyzing at the Lake Washington Kidney Center should discuss this with their private physician.

We wish the Lake Washington Kidney Center every success. More information about this unit will be available in a later issue.

FINANCIAL NEWS

As I have pointed out previously, in the state of Washington we have always had an extremely cost-conscious approach to the treatment of kidney disease and have always emphasized home dialysis and transplantation. Thus I was particularly interested to see recent figures on Medicare expenditures for renal disease which show that in the year 1979, for example, Medicare reimbursement per patient (this includes both dialysis and transplant patients and does not include any other source of reimbursement) was almost $13,000 per patient per year in Washington, whereas the national average was $15,660 per patient per year. Thus the cost per patient in this state is 83% of the national average. This difference is almost entirely due to lower reimbursement for Part B of Medicare which pays for outpatient and home dialysis. If, as we expect, one of the federal thrusts is for encouragement of home dialysis, we may be in a better position than many other areas.

ORIENTATION UNIT

The Orientation Unit of the Northwest Kidney Center is now operating 6 days a week with a relatively full patient load and is proving extremely popular with both patients and staff. It provides the opportunity for new patients to learn about their disease and its treatment in quiet surroundings with a great deal of staff and patient interaction.

Dr. Christopher Blagg

We are continuing to develop new materials to help patients. If any of you have ideas as to how we might improve the patient's first exposure to dialysis, please feel free to write to me.

PATIENT ADVISORY GROUP

As some of you know, the Network Coordinating Council has developed a Patient Advisory Group to represent patients from the five-state area. I am delighted to say that one of our patients, Diane Fisher, has been elected chairperson of the group. They are working on a number of areas that will be of interest to patients, and I am sure that you will be receiving more information about this. If you have questions, please feel free to contact Diane at 632-5240.

cont. page 2

A WIDER WORLD FOR HEMODIALYSIS PATIENTS

by Joan Held, Dialysis Technician
& Joan White, R.N.

Northwest Kidney Center is teaching its hemodialysis patients to travel. . .

When patients start dialysis, they are given not just extended life, but vitally necessary encouragement for the future by their physicians, nurses, social workers, and others. Once they are established on treatment, trained for self care, and home again, it is anticipated that life will be lived under near normal conditions. For many of the Northwest Kidney Center patients, this indeed does happen. They return to jobs and care for their children and homes; some get married and start families. Once their energies are freed their thoughts can wander to the pleasures of life, the "extras' - like fishing trips, visiting distant relatives, or just getting away from it all.

It does not take long for dialysis patients to realize how small their world has become. With a machine essential for life sitting in their homes, they tend not to venture far away. The feeling of being trapped and confined soon encircles them. How many times have you heard a patient say, "I really feel tied down" or, "I can't be away for more than a weekend, and I hate it!"

At the Northwest Kidney Center, many of the established home hemodialysis patients have overcome these feelings and now enjoy a broader life-style which includes travel. This is accomplished in three ways.

VISITING INCENTER DIALYSIS. A list of centers across the nation and in many foreign countries is available, and most of these readily accept patients. Incenter dialysis allows the patient and family to be tem-

cont. page 3

DIRECT FROM THE DIRECTOR

cont. from page 1

PROBLEMS WITH STATE FUNDING

The state of Washington Department of Social and Health Services currently is planning and reviewing the programs for which it is responsible. Preliminary estimates have been that the Department will lose more than $110 million in federal funds in the coming biennium, and so at this time, the Department is reviewing its programs and developing priorities and contingency plans to provide for such cuts.

The legislature has recommended an appropriation of $1.5 million for support of the kidney program throughout the state during the coming two years. This we believe to be a relatively conservative amount, based on present experience and the continuing emphasis on home dialysis in Washington. Certainly we will be concerned if this moment were to be reduced.

There is the opportunity for the public, including patients, to comment on priorities in health care services, and I would urge patients to consider providing such input. Written comments can be sent to the Office of Citizen Participation; DSHS; Mail Stop OB44-R; Olympia, Washington 98504, and should be addressed to Mr. Alan J. Gibbs, Secretary, Department of Social and Health Services. I believe it important that the Department understand the high cost of treatment for end-stage renal disease and that these costs are such that many lower-income patients in addition to those on welfare are unable to meet them, even with the assistance of the Medicare program. I have concern that such patients may be forced to the welfare rolls if other sources of funding are eliminated.

If any patients have questions with regard to state funding, please feel free to contact me.

FEDERAL FUNDING

On July 27, conferees for the House and Senate budget process met and passed their recommendations for the renal program. On very skimpy information available at this time, it appears that there will be a single rate for all dialyses, whether in a facility or at home, although the rate will be different for programs based on free-standing facilities as compared with hospital facilities. In addition, for those patients with employer-sponsored group plan private insurance, this will be the primary payor during the first year of the patient's treatment, although Medicare (not the patient or the facility) will bill the insurance. Medicare itself will continue to pay for treatment for other patients.

I will provide you with further information as it becomes available.

"THE DRUG ITSELF HAS NO SIDE EFFECTS – BUT THE PRICE MAY CAUSE DIZZINESS AND FAINTING."

WHO'S WHO

by Patty Wood

The bubliest brunette you ever met is down in the Orientation Unit and her name is Sandy Smith. She's been on the machine since June 18th, but she's a million light years ahead as far as learning to live with her new life is concerned.

Born and raised in Hawaii, Sandy became a "mainlander" to attend U.P.S. in Tacoma, where she earned a BA in English. She enjoys working full time as the charge Bookkeeper at Sams Tire in Seattle. She even worked the day she first dialyzed and the next, keeping right on.

Sandy found her kidneys were failing about 3 years ago. Tests showed she had glomerulonephritis - apparently from strep throat as a young child. She got a bovine graft in April, and this has worked real well and is easy to find and stick. She looks forward to her runs as a "relaxing time". This gives her 4 hours to watch TV.

Sandy Smith

Right nowshe's waiting for the crossmatching test results from her sister and one of her four brothers. But Sandy isn't planning a transplant right away since the machine is doing so great.

Sandy lives in Auburn with a roommate and is looking forward to home dialysis where she can "really relax". Her home training starts August 17th. Her favorite pastime is playing her guitar and writing songs.

She really likes the atmosphere of the Orientation Unit and appreciates the understanding and compassion of the people there. Sandy had a chance to meet other new patients and to share experiences. The worst time was just before she started dialysis, when the fear and feeling of aloneness was overwhelming. Sandy's such an optimistic person and feels she can handle it now and go on with her life from here. Good luck Sandy, we're with you all the way!

A WIDER WORLD FOR HEMODIALYSIS PATIENTS

cont. from page 1

porarily relieved of dialysis duties and there is no need to bother with packing supplies. However, depending upon the popularity of the area, requests for dialysis for a visitor may have to be submitted many months in advance. Other considerations: the distance of centers from vacation areas and the necessity to adjust daily vacation activities to fit scheduled treatment times.

DELIVERY SYSTEMS FOR SELF CARE. Another alternative is to travel with a delivery system for self-care dialysis, which allows patients to establish their own dialysis schedules and offers greater flexibility in choosing vacation spots. Most home machines can be used for traveling. Some patients have adapted their motor homes, cabins or boats to accommodate these units. By using their own machines, patients have dialysis constantly available and do not require further training. However, due to the need for a continuous supply of treated water and a drainage system, and a vehicle large enough to carry the equipment, it is not feasible for many patients to travel in this manner.

PORTABLE MACHINES. Because of the disadvantages of traveling with a single-pass delivery system, many patients opt for portable machines. These require no water or drain hook-up and use a standard three-prong grounded electrical outlet. They can be easily transported via car, airplane, motor home, etc. The greatest advantage is being able to vacation in more remote areas. At the Northwest Kidney Center, there are SorbSystem machines available for travel, as well as the Friedman-Hutchisson kidney machine.

Thanks to the generosity of Dr. Eli Friedman of Downstate Medical Center, New York, the Northwest Kidney Center was privileged to have one of the first prototypes of the suitcase machine. Eight patients have traveled with this unit. This dialysis machine is built into a 22" x 13" x 6" suitcase. It is a batch system using 21 L dialysate, and requires bath changes during dialysis. Our patients have found that this machine requires more visual monitoring and has been best utilized when extreme portability is necessary or desirable.

The portable suitcase machine is not currently in production, and the number of home dialysis patients we have using the prototype is limited. However, Dr Friedman's portable dialysis concept did prove to be feasible and practical and it will undoubtedly influence the future development of portable hemodialysis machines.

The most frequently utilized protable machine is the Organon Teknika SorbSystem, a sorbent dialysis sytem based on the priciple of dialysate regeneration. This unit has a case size of 24" x 13½" x 14" and weighs approximately 40 pounds. It uses filtered tap water and requires less than 5.5 L dialysate for actual dialysis treatment.

Generally the training for the portable machines has been an intensive two-to-three-day schedule which includes setting up the machine for use, monitoring dialysis, cleaning the machine afterwards, as well as any necessary troubleshooting techniques. Step-by-step procedures have been written which simplify the learning process and enable the patient to set up, connect, and disconnect after only a few practice sessions. One run with the portable machine at home prior to leaving on vacation is encouraged. If the patient feels the need for further training sessions, these can easily be arranged.

Joan Held

There have been only a few problems, such as not receiving supplies previously shipped, or minor machine malfunctions. Our home training staff and service department provides 24-hour suppport by telephone for troubleshooting. If a machine malfunction cannot be corrected, our service department contacts Organon Teknika Corporation headquarters which acts as a central dispatcher, locating its service person nearest the vacationing patient. Arrangements are then made to repair the machine.

One problem all patients seem to have when traveling, either with self-care or visiting incenter dialysis, is excessive fluid weight gain. Patients attribute this problem to the difficulty in controlling sodium intake when relying on restaurants for meals and not always being able to dialyze in their usual manner in visiting centers. Some of those traveling with the portable equipment found they were more hesitant to use negative pressure with machines with which they were less familiar, or they did not take scales for appropriate monitoring of weight gains. Information gathered from shared experiences has made the home training staff more aware of this problem and we are attempting to educate patients more completely prior to travel.

Although traveling with hemodialysis has been made easier, it requires planning and preparation. Once a patient has explored the vacationing dialysis possibilities and has made his choice, he informs his physician of his intentions. A call is then made to the Center to reserve a machine and schedule training. Financial inquiries can be made at the same time. At the present time there is no extra charge for the use of the portable machine; there is however, a charge for the training. Medicare covers the usual costs for dialysis within the U.S. and its territories.

Northwest Kidney Center patients have vacationed in cities throughout the United States as well as Europe. Leisurely drives down the Oregon coast and into California were popular trips for several families. One patient fulfilled a promise to his children to visit Disneyland, while another young man was able to take his small son to Kodiak, Alaska, for a long visit with his grandparents. For others, "vacation" means escaping to the peaceful mountains, lakes, and campsites in Washington state.

cont page 8

FROM PIERCE COUNTY

In August the Pierce County Lunch Bunch will gather for a pot-luck picnic, August 13th, Thursday, at the home of Dan and Helen Bobich. Their address is 901 18th Avenue Milton.

Bring a salad, hot dish or dessert, your bathing suit and *Sunshine!*

For reservations or directions, call Helen at 922-9926 or Marge at 543-7112, ext. 266

NETWORK COORDINATING COUNCIL

by Diane Fisher

Hello People,

I've been busy this summer working with the Patient Advisory Group (PAG). This group is a part of the Network Coordinating council for Region X. The Network Coordinating Council consists of one representative from each dialysis facility in the western states of Alaska, Idaho, Montana, Oregon and Washington. Dr. Blagg has been the chairperson and the council has been dealing with issues such as certificate of need and it has a sub committee called the Medical Review Board.

Information about the Network Coordinating Council is printed in a booklet the Network Coordinating Council put together, which will soon be distributed.

Right now I want to let you know what the PAG has established as some objectives and what we have put together so far.

Diane Fisher

STATEMENT OF STRUCTURE AND PURPOSE of the ESRD NETWORK COORDINATING COUNCIL #2 Patient Advisory Group

Structure

The End Stage Renal Disease Network Coordinating Council #2 Patient Advisory Group will be comprised of twelve members, three of whom will be the categorical consumer members of the Council, representing the geographical areas in NCC #2, the different treatment options, and families of kidney patients. One member will be elected chairperson of the group.

Composition will be drawn as follows:

Alaska - 1
Idaho - 2 (one from eastern and western Idaho)
Montana - 2 (one from eastern and western Montana)
Oregon - 3 (one from each HSA area)
Washington - 4 (one from each HSA area)

The three informed consumers currently elected to the NCC #2 will automatically also represent their area on the Patient Advisory Group (PAG). Nominees will be requested from the NCC #2 patient population and selected according to the above criteria by the three informed consumers.

The role of the PAG will be self-determined. An evaluation by the group in December of 1981 will be used to determine the PAC's future role. The PAG will report to the Medical Review Board and through the MRB to the Council and to the Secretary of the Department of Health and Human Services.

Goal

To improve the quality of life and care of patients in the ESRD NCC #2 area.

Staff Support

One NCC #2 staff person, to be determined by the Executive Director, will be primarily responsible for staffing the PAG.

Objectives

Development of a patient's rights and responsibilites statement.
Development of an informational-support hotline for patients and families.
Development of a patient advocacy role.
Development of a patient information booklet on ESRD financial matters, relevant legislation, and choices of treatment.
Publication of a quarterly newsletter with updates for the information booklet.
Development of a living will for kidney patients.
Maintain liaison with each facility's patients.

PATIENT ADVISORY GROUP

During June, 1981, a Patient Advisory Group organized to improve the quality of life and care of the recipients of end stage renal disease services in the Network #2 area.

The advisory Group is made up of eleven kidney disease patients and one patient's wife. The members represent the following treatment options: in-center and home hemodialysis, CAPD, CCPD, and transplantation. There are four representatives from Washington, three from Oregon, two from Idaho, two from Montana, and one from Alaska.

One role of this Group is to provide information about the concerns and needs of the patients to the Medical Review Board. Other activities are:

INFORMATIONAL-REFERRAL LINE

Since patients and family best understand the emotional side of a machine-dependent life or having a kidney transplant, an informational-referral line is being developed. By contacting members from our diverse patient population, many questions can be answered by ones "who have been there" and at the same time offer encouragement. A patient using the informational-referral line from the time of referral by a physician or facility may benefit by hearing of another patient's experiences. By sharing their experiences, patients and family members may be better able to accept and manage the changes in their life caused by the illness. Names of patients who are willing to share their experiences are being sent to each nephrologist, facility, and patient association in this five-state area. Their names can then be given to new patients and their families who can contact these resource persons at their own discretion. This service is not intended to replace physician, nurse, or social worker contact with the patient, but rather to complement it.

RESOURCE MANUAL

A resource manual or information booklet is being compiled. Included in this manual is information concerning MEDICARE reimbursement policies. Each state in this Network also has a fund to provide financial assistance for chronic renal disease treatment. Policies from each state are included. Many patients and family members may be unaware of the rehabilitation resources available to them. A list is being compiled for different areas in the individual states of this Network.

Updates of information to keep the end stage renal disease community notified about changes in legislation and other relevant information is planned. These updates to the resource manual will be published on an intermittent basis.

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KIDNEY KOSHER

by Gary Severson

I staggered out of Eklind Hall on a Wednesday August afternoon. As I blacked out momentarily in the parking lot, the hot sun welcomed me. Regaining my equilibrium, my attention wandered to the sidewalk parallel to Columbia Street. Gloria, my home training nurse, was leaning against a tree, her back facing me. In an instant I thought about her unusual blue eyes. It triggered my rememberance of some dialysis sessions together.

We had both enjoyed the Rolling Stones. Why I wasn't sure. Perhaps only because it was popular to like the Rolling Stones. But the Stones had been the link that allowed Gloria and I to talk freely that first time . . . years ago. She had put me on the kidney machine without concern whether I was Seattle's biggest banker or best bum. I mattered. I was a name, not a number.

I remembered our declotting adventures. My lip-biting rivaled her facial grimaces. As she pulled on the syringe pain surged in my left arm, but it must have surged right to her heart. Her face said it did.

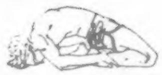
And the night she brought me that super duper hamburger from the junk food joint. The snow was already deep and falling fast, but it was deeper and falling faster as she hurried to my bed with my grand prize in her hands. Gloria stood at the side of my bed while I smacked bites of hamburger down into my appreciative stomach. I knew she was watching me, and I searched out her eyes. But I found only darkness accompanied by the sound of other patients breathing and my own machine's mechanical parts moving. The strange void was filled only by my gulps of hamburger.

And here she was, once more available when I needed her. Yes, the trooper would troop one time more.

Gloria turned her head and I saw those blue eyes, now moistened, and I heard a sob. In the next moment, while my heart raced in confusion, my mind flashed the Rolling Stones, the hamburger and some scenes I did not understand. But I did understand what it meant to be faithful, kind and real — to be a human being. Gloria had taught me.

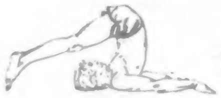
As I sat beside her in the grass, trading my new smile for her used one, I knew the teaching wasn't over.

EXERCISES



Kneeling Back Bend

Kneeling with both knees and ankles on the floor, very slowly lean backwards attempting to touch your head to the floor. This should be attempted only after you have developed above average flexibility. Repeat 3 times.



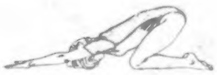
Upper Back Stretch

Lying flat on your back with your arms extended along the side of your body, raise your legs up and over your head and, keeping your knees locked in an extended position, attempt to touch the floor behind your head. Keep your back and arms flat on the floor. Hold in this position for 5 seconds, then relax. Repeat 3 times.

Abdominal Stretch

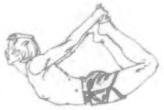
Starting in the kneeling position identical to that explained for the back arch, swing your trunk forward over your shoulders, bend your elbows and lower your chest to the floor.

Then extend your arms forward, lower your head and raise your buttocks as high as you can by arching your back. Hold in this position for 5 seconds, then relax. Repeat 5 more times.



Lower trunk stretch

Lying flat on your stomach, reach back and grab your ankles, arch your back and pull your head up slowly as high as you can. Hold this position for 5 seconds, then relax. Repeat 3 times.



Back and Hip Stretch

Lying on your back with your arms extended to your sides, tilt your hips upward and bring your knees up and toward your head, keeping your arms and back pressed firmly against the floor. Hold in this stretched position for 5 seconds and then relax, repeat 3 times.

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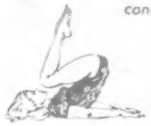


FOR SALE

Manual Hospital Bed complete with protected mattress, side rails, fabric mattress cover and sheets. $100.00

Wheelchair $100.00

Both in excellent condition

Call Helen Day at 935-3434

NETWORK COORDINATING COUNCIL

cont. from page 4

BILL OF RIGHTS AND RESPONSIBILITIES STATEMENT AND GRIEVANCE POLICY

Bills of Rights and Grievance policies were reviewed from various member facilities. The Group encourages local facility resolution of problems. However, where no local resolution is possible, a member of the Patient Advisory Group may be contacted.

PATIENT ORGANIZATIONS

The Patient Advisory Group is developing a format for establishing patient organizations based on the experience of existing groups. They will be happy to assist groups of patients as needed.

LIVING WILL

An example of a living will is being written for kidney patients. Copies are available upon request from Patient Advisory Group members, the Network office in Seattle, your social worker, or the dialysis facility in your area.

SUMMARY

The Patient Advisory Group members working with each facility's patients, patient organizations, and staff will help make the Network visible and accessible to the ESRD community.

It is the view of the Group that the quality of life of the patient and the family may be improved if there is more interaction with other families. The Group promotes patient and family education and plans to prepare updates on changes in reimbursement policies and legislation which would affect patient coverage. Updates on these other relevant information will be distributed as needed.

The Group representatives hope to implement other programs and would welcome patient and family involvement in the growth of these programs. We will keep you posted.

If you would like to be available for informational-referral line, call or write me. Diane Fisher at 1800 N. 46th, Seattle, WA 98103, phone: 632-5240 [illegible] at the Northwest Kidney Center [illegible] ld timers are available for that added [illegible] ch of personal support and information. Maybe at your center or in your area you would be a resource person giving someone a helpful step to making a positive adjustment in their life. There is a definite caution by physicians and centers on who they would rely on to talk with new consumers. This I can understand as the newness of everything can be overwhelming and peoples' rights need protection.

Also I've included an example of a Living Will that is being used by some of our people. It is just to give you an idea of what you might like to have on record.

LIVING WILL

To my family, my physician, my lawyer, my clergyman. To any medical facility in whose care I happen to be. To any individual who may be responsible for my health, welfare or affairs:

Death is as much a reality as birth, growth, maturity and old age - it is the one certainty of life. Since April, 1975 I have been kept alive with a reasonable quality of life by dialysis, a process which removes toxins and excess fluid from my blood stream by use of an artificial kidney machine. During the past two years, however, I have been suffering from neuropathy which has been progressive and threatening to cause me to become a cripple. If this should happen to a degree which prevents me from taking an active roll in society, or from managing my own treatment on the kidney machine, or if because of other physical or mental deterioration I can no longer take part in decisions for my own future, let this statement stand as an expression of my wishes while I am still of sound mind.

If any of the above situations should arise, and if there is no reasonable expectation of recovery, I request that I be allowed to die and not be kept alive by artificial means or "heroic measures", including dialysis. I do not fear death itself as much as the indignities of deterioration, dependence and hopeless pain. I also ask that appropriate medication be administered to me to alleviate suffering and discomfort, even though this may hasten the moment of death.

This request is made after careful consideration. I hope you who care for me will feel morally bound to follow its mandate. I recognize that this appears to place a heavy responsibility upon you, but it is with the intention of relieving you of such responsibility and of placing it upon myself in accordance with my strong convictions that this statement is made.

SIGNED____________________

Date ____________________

Witness ________________________

Witness ________________________

Copies of this request have been given to.

……

We are meeting this Sunday, August 2nd in Seattle and going over some video to see what is available and what needs to be done. The minutes from our meetings will be posted on Northwest Kidney Center bulletin boards. If you like to talk, ideas - or whatever, I would appreciate hearing from you.

PRESIDENT'S CORNER

Patty Wood

PRESIDENTS CORNER

by Patty Wood

I am convinced, both by faith and experience, that to maintain one's self on this earth is not a hardship but a pastime, if we live simply and wisely. While I enjoy the friendship of the seasons, I trust nothing can make life a burden to me.

Thoreau

I hope everyone is enjoying the "cool" summer as much as our family is. It sure hasn't stopped the veggies or flowers from coming up beautiful.

The runners at the Gardens to Gasworks footrace appreciated it too. The day was just perfect, cool at first, then it warmed up in the afternoon. From what I heard it "really" warmed up at the after-the-race party!!

Last Sunday was the Gold Creek Trout Farm's fishing derby, put on by the Lions Clubs of Woodinville. The trout were big and fun to catch. The Trout Farm itself is so pretty, it's just like a beautiful park. Ida and Knute Olson are such gracious people to host it.

Just a note to plan ahead. We need people to sign up for the Sea-Tac Mall Health Fair on September 12th and 13th. It's a fun one so sign up soon.

Also, our September 27th meeting will be coming up, so put this on your calendar as it will be the start of another good year.

Hope to see you soon.

KITCHEN CORNER FOR KIDNEY PATIENTS

RECIPES

Here is a good (I think) breakfast drink for kidney patients who don't like eggs fixed the usual ways.

Juice of ½ grapefruit = ½ cup. Sodium - 1, Potassium - 122, Phosphorus - 16

1 raw medium sized egg. Sodium - 54, Potassium - 57, Phosphorus - 90

1 tablespoon honey. Sodium - 1, Potassium - 11, Phosphorus - 1

Total milligrams: Sodium - 56
Potassium - 190
Phosphorus - 107

Whip in a blender or just in a bowl, whipping it with a fork, as I usually do.

The restaurant where I got this recipe said you can add vodka if you want. In checking with Katy Wilkens, the dietician, she says that vodka is fine for kidney patients, if your doctor allows it. It is low in sodium, potassium, and phosphorus.

by Dorothea Kewley

Cranberry Pineapple Delicious

1 can (#1) whole cranberry sauce
½ pint Cool Whip
1 can (8 oz.) crushed pineapple
1 Tbs. lemon juice
2 cups miniature marshmallows

Drain pineapple. Put cranberry sauce in mixing bowl and stir to remove all lumps. Add pineapple, marshmallows, and lemon juice. Fold in whipped cream. Put in 9" square glass dish or 9 individual molds. Refrigerate several hours or overnight. Serve as salad or dessert; if using as salad, top with mayonnaise that has been thinned with some of the pineapple juice. Use ½ cup as 1 fruit.

(9 servings - 4½ cups)

Spoon Bread

⅔ cup Coffeerich
⅓ cup water
⅓ cup corn meal
2 tsp. unsalted margarine
1 egg

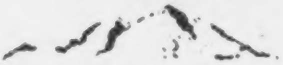
Combine Coffeerich, water, cornmeal, butter and cook over low heat, stirring occasionally until mixture thickens. Gradually add corn meal mixture to beaten egg and mix to blend ingredients. Pour into greased baking dish. Bake at 375° F for 45 minutes or until set. Serve hot. 1 serving equals 1 slice of bread.

Lemon Bar Cookies

½ cup margarine or shortening
2½ tsp. Sweet'n Low (or other sweetener)
1 egg
1 Tbs. water
1 Tbs. lemon juice
1 Tbs. grated lemon peel
1 tsp. vanilla flavoring
2 cups sifted all-purpose flour
1 tsp. baking powder

Cream margarine or shortening in bowl at high speed. Add Sweet'n Low, water, lemon juice, lemon peel, and vanilla. Beat until thoroughly mixed. Sift dry ingredients together and add to creamed mixture. Blend in dry ingredients. Dough will be dry. Form dough into 2 bars 2½" x 1½", wrap in waxed paper. Chill overnight or until firm. Cut into 1/8 " slices and bake on ungreased cookie sheet at 400° F for 10 - 12 minutes. Cookies will be lightly browned when done.

MOUNT BAKER KIDNEY CENTER



**The
Mount Baker
Kidney Center
is her Beat**

by Betty Zygmanski

Catheryn Elich's face lit up as she talked about her pet project, the Mount Baker Kidney Center. Catheryn's interest in patients on dialysis evolved from the illness of her daughter, Sandra, several years ago. After six or seven years on the machine, Sandra had a transplant from her brother. However, transplant worked for only a year.

At that time Medicare didn't cover the cost of dialysis, nor did medical insurance pick up the cost. Sandra's friends helped by staging benefits for her. After Sandra's death four of her friends formed a chapter working toward the day when a dialysis unit would be established in Whatcom County. Mrs. Elich was asked to join them. The group, which has only about ten members, do bazaars and dinners to raise funds. Proceeds go to the Northwest Kidney Foundation.

Catheryn also meets once a week with the Women of Fair-Haven. To them also must go credit for Northwest Kidney Foundation donations. The group recently provided the patients at the Mount Baker unit with Medic-Alert bracelets and necklaces.

Now, with the help of Catheryn and others who care, there is a Center in Bellingham in the very hospital, St. Joseph's, where Mrs. Elich has been a volunteer for seven years. Here she serves two days a week, putting in a full eigh[illegible]ur day in Admitting and X-ray. She still finds time to pop in each day she works to say "Hi" to patients at the Center or to visit those hospitalized. Staff, patients, and families look forward to her visits. Where would we be without her? She's special. The Mount Baker Kidney Center is truly her beat!

KIDNEY KONSTRUCTION

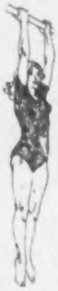
Ralph Fies and Todd Hansen hard at work constructing a new "home" for the Northwest Kidney Center Computer.

EXERCISES

cont. from page 5

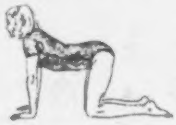
Bar Hang

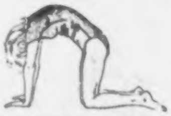
Locate a bar or some other suitable object that is just slightly taller than your extended reach. Use either a stool or jump up and grab the bar, and then hang from the bar 20 to 30 seconds. Repeat 2 times.



Back Arch

Kneeling on your hands and knees, with your knees 3 - 4 inches apart directly under your hips and your arms directly under your shoulders, drop your head forward, contract your stomach and buttock muscles and arch your lower back. Hold this position for 3 - 5 seconds and then relax, repeating for a total of 5 times.





A WIDER WORLD FOR HEMODIALYSIS PATIENTS

cont. from page 3

Since the summer of 1976, the Northwest Kidney Center has offered ten portable dialysis machines for travel to our established home hemodialysis patients. As of December, 1980, 36 patients had trained and traveled with these units. Their experiences have proved that traveling can be accomplished with few problems, and that staff can successfully support the patients with those problems that were encountered.

Few major machine malfunctions and unplanned incenter dialyses have occurred. Some incenter dialyses were necessary due to supplies not being received and a broken machine component acquired during transportation. At no time did any of those dialyzing on portable units experience a life-threatening situation.

Northwest Kidney Center personnel can, with confidence, assure new patients or those already on home dialysis that traveling can be a part of their life-style. Those patients who have already "traveled with hemodialysis" readily testify that while their experiences were not totally without frustration, the pleasures shared by them and their families made it all worthwhile.

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Address Correction Requested

Mr. **Rangel**. The Committee on Ways and Means will come to order.

[Mr. Rangel's prepared opening statement follows:]

Opening Statement of Hon. Charles B. Rangel, a Representative in Congress From the State of New York

Our hearing today is part of a series of hearings the Committee on Ways and Means has been conducting across the country to assess the fiscal and human impact of the recent federal budget cuts. We have taken extensive testimony in cities across the country about the effects these cuts are having on the capacity of both local governments and the network of public and private institutions to deliver needed services, particularly to the poor and disadvantaged.

As a result of these hearings, I have become convinced that the Administration's policies are wreaking havoc on the state and local governments and taking too large a toll in human suffering. The state and local governments in many communities have been thrown into fiscal crises as they try to maintain needed public services. In many instances they have been forced to cut essential services and raise taxes, a double blow. Even state and local communities that may have managed to absorb the first round of cuts have indicated that they will not be able to handle the second round that we anticipate the President will be proposing in his budget in February.

Seattle is a proud city now suffering from the onset of a recession with its accompanying growth in unemployment and accompanying demands on government resources. We are here today to listen to testimony from public officials and private citizens in order to better understand the impact of our legislative actions.

On behalf of the Committee, I want to express our gratitude to the representatives of the Governor's office and State legislature, the Mayor's office and City Council, and all the other witnesses from across the State who have come here today to testify on these important issues. I also want to recognize and thank my colleagues from the State of Washington, Mr. Lowry, Mr. Dicks and Mr. Pritchard who are joining us here today in this important inquiry.

Mr. **Rangel**. This is one of a series of hearings that we have been having around the country in order to determine the impact of the Reagan economic recovery package, which required $35 billion in cuts.

My name is Charles Rangel, and I am from New York.

The Ways and Means Committee is the tax-writing committee of the Congress, and we have jurisdiction over many of the budget cuts, such as, social security, SSI, and unemployment compensation. We are trying to determine the impact that these cuts have had on the American people.

We are fortunate to have with us two of your own Congressmen who are hard-working and dedicated people. I call Representative Joel Pritchard at this point.

Mr. **Pritchard**. I wish to welcome this committee to my district. It may not be my district much longer, but at least for a day or two, it is still my district.

We are very pleased that you came, and we are interested in the testimony, and we are glad that the people of Seattle will have a chance to testify. We have a good list of witnesses and it will be an interesting afternoon.

I will have to leave at 4 o'clock because I have a longstanding schedule of a district day out in the Shoreline Area, but I will be looking forward to the next 3 hours and be glad to welcome you and turn it over to Mike.

Mr. **Lowry**. Thank you.

Mr. **Rangel**. Thank you, and we are glad that we have been invited by Mike Lowry, and thank you both for your hospitality.

Mr. **Lowry**. Thank you very much. I wish to thank all the members of the committee for coming out here. We have an excellent panel of witnesses coming.

As they will make very clear, we have rapidly increased the number of unemployment rates in our State. It is an extreme problem, and it has grown extensively in the last year, and all of the related problems that come along with that the panel will be able to see are significant, and we certainly appreciate you and the committee taking your time to come out here and listen to our very specific and very dire problems.

Mr. **Rangel**. We have joined together to find some answers to the very serious problems that America is facing today.

We have with us from Ohio, Congressman William Gradison, from Texas, Ken Hance, and from the State of Arkansas, we have Beryl Anthony.

Do any of the members care to make an opening statement before we call our first witness?

[No response.]

Mr. **Rangel**. The Chair having heard no one request time, calls the Honorable Alan Gibbs, secretary of the Department of Social and Health Services for the State of Washington, as our first witness.

STATEMENT OF ALAN J. GIBBS, SECRETARY, DEPARTMENT OF SOCIAL AND HEALTH SERVICES, STATE OF WASHINGTON

Mr. **Gibbs**. My name is Alan Gibbs, secretary of the Washington State Department of Social and Health Services, the State's primary human services agency.

Mr. **Rangel**. I still think that there is a problem with our sound system.

[Brief pause.]

Mr. **Rangel**. Try again, Mr. Secretary.

Mr. **Gibbs**. I am secretary of the department of social and health services. The department is the primary human services agency of the State responsible for programs of income assistance, medical assistance, and refugee assistance, developmental disabilities, mental health, juvenile rehabilitation, services to the aging, and adult and children's services.

I appreciate having an opportunity to briefly discuss with you the impact of the Federal budget reductions and block grants on these particular services in this State.

I have submitted for the record a brief statement and some accompanying materials which I do not propose to read.

Mr. **Rangel**. Without objection, your full statement will be entered into our committee record.

Mr. **Gibbs**. Thank you, Mr. Chairman.

I would like to focus my comments before you ask questions, Mr. Chairman, on how the State of Washington has tried to respond to the many changes and budget reductions that have come from Congress in this last session with respect to programs of social and health services.

You will hear testimony today from a number of other people who will be talking about their concerns for budget reductions that have taken place in the State over the last year.

It is important for you to understand that we have gone through three budget-reduction cycles.

When the legislature met in this State earlier this year, we reduced from current levels of service in social and health services almost $500 million in programs, primarily in the area of income and medical assistance. Since then the economy of the State has taken a downturn, and further reductions have been made.

The amount of the Federal reductions that affect social and health services are estimated to be $70 million, I say estimated because the Congress has not yet finally enacted an appropriation bill.

I want to talk about the impact of those $70 million in reductions and how we have tried to meet the challenge of Federal changes. We began back in March of this year in anticipation of the changes, after the President announced his program, to plan to absorb the loss of Federal funds.

The Governor put together a Federal budget assessment team to try to assess what the impact was going to be on the State, and we put together an interagency committee composed of myself and other representatives from State and local government to try to set a structure for dealing with block grants and absorbing the loss of Federal funds.

We made a very key decision at that time early in the planning process, and that key decision was that we would not mirror-image the Federal cuts in this State. In some program areas, our programs were dependent on Federal funds to the tune of 85 percent, and in others 1 percent. The proposed Federal reductions in some programs, could cause very deep cuts in one program area and lesser cuts in another.

We decided that it was in our best interest as a State to use this as an opportunity to reexamine all of the social and health programs and try to establish our priorities in terms of services and in terms of clients.

The plan then was to identify low-priority services, achieve savings by reducing them, and transferring those State funds to make up for the loss of Federal funds, and that is indeed what we have done.

We began a planning process that involved every program in our department, and each program went through and examined all of its elements and consulted with advisory committees throughout the State, developed a comprehensive mission statement for all of our social and health services programs, and prioritized every service from income assistance through mental health. We held public hearings on that plan to get comments, and more than 1,500 people showed up at those hearings, and we got testimony after those hearings in writing from people.

In September we published our final plan, and it was a plan to implement both block grants and to absorb the loss of the $70 million.

What I would say to you with respect to that $70 million is simply this: That while we are losing $70 million in Federal funds, we have not had to cut services by $70 million. We did a number of things to make some management improvements, reduce regulations, charge fees for licensing and inspection, and charge fees for services that will account for $50 million in savings. So the reductions that we are making in services are minimal, and fall in two areas within my jurisdiction.

The first is in income assistance, where we are implementing all of the mandated Federal changes, because there are no options for the State with respect to the mandatory changes.

We are making reductions in our lowest priority services, information and referral, planning and research and demonstration projects, and curtailing some of our expansion plans that we built into the biannual budget.

In that way we have been able to minimize the adverse impacts associated with the magnitude of the loss that we have been talking about.

Now, because the economy of the State is not good, there have been other State reductions, and so that there are other service reductions, but they cannot be attributed to the Omnibus Reconciliation Act.

[The prepared statement and subsequent letter follow:]

STATEMENT OF ALAN J. GIBBS, SECRETARY, WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES

My name is Alan J. Gibbs. I am Secretary of the Washington State Department of Social and Health Services.

The Department of Social and Health Services is the primary human services agency for the state and has responsibility for administering programs in the areas of juvenile rehabilitation, developmental disabilities, mental health, public health, medical assistance, income assistance, refugee assistance, alcohol and drug abuse, aging and adult services and children's services.

I am pleased to have the opportunity to provide you with material explaining how we are implementing federal budget cuts resulting from the Omnibus Reconciliation Act of 1981. Attached for your information are documents which describe the process we have followed in this state to implement block grants and absorb the loss of about $70 million in federal funds during this biennium.

The first document, dated May 8, 1981, describes the process we defined last spring to involve other agencies of state government, local governments and the general public in planning for federal changes that were sure to come in the fall. Following publication of this document, which was given wide circulation in the state, the department launched the most thorough examination of all its programs ever undertaken in its ten year history.

The second document, dated July 21, describes the results of that program review, and outlines the initial decisions we made about how to implement block grants and absorb losses of federal funds. The document reflects our perspective of essential services to be maintained despite federal cutbacks and sets forth a series of alternative proposals for focusing cuts in less essential services.

Following publication, the department held public hearings on the plan and solicited public comment on all the proposals.

The third document, dated September 29, 1981, is the final plan developed by the department for implementing block grants and minimizing adverse impacts on people despite the loss of $70 million in federal funds. The document lists in considerable detail all of the program changes we are now implementing.

Although we will lose $70 million in federal funds, we will not have to cut services by that amount. We are cutting administration, reducing regulations, making management improvements, charging fees and generating other savings in state funds to make up for most of the loss of federal funds.

We are making cuts in services. Some of the cuts, like those in the AFDC program, are mandated and give states no option to do otherwise. Other cuts that we making in social and health services programs do not mirror federal actions. We have chosen to reduce services in our lowest priority programs and shift state funds to higher priority programs. By doing so, we have been able to maintain essential services with declining federal resources.

State of Washington,
Department of Social and Health Services,
Olympia, Wash., January 27, 1982.

Hon. Dan Rostenkowski,
Chairman, House Committee on Ways and Means,
Washington, D.C.

Dear Congressman Rostenkowski: At the House Ways and Means Committee hearing in Seattle on January 19, 1982, I was asked by Congressman Beryl Anthony to supply, for the record, a breakdown on appropriations for the Washington State Department of Social and Health Services for the last decade. Listed below are State and Federal appropriations for each biennium starting with July 1, 1969.

[In millions of dollars]

	State	Federal	Total
1981–83	1,400	1,094	2,494
1979–81	1,232	1,019	2,251
1977–79	919	751	1,670
1975–77	746	609	1,355
1973–75	603	508	1,111
1971–73	507	435	942
1969–71	458	300	758

Sincerely,

Alan J. Gibbs,
Secretary.

A PROPOSED PROCESS FOR DSHS IMPLEMENTATION OF PRESIDENT REAGAN'S PROGRAM FOR ECONOMIC RECOVERY

May 8, 1981

PART I

A DISCUSSION OF THE PROBLEM

INTRODUCTION

The Reagan administration has proposed the consolidation of up to 40 federal categorical grants into four large social and health services block grants. These grants are to be funded at seventy-five percent of the federal fiscal 1981 appropriation. A Medicaid cap is also proposed to restrain growth in federal health spending. Although AFDC has been targeted for block grants for several years, and such blocks may be forthcoming in the near future, the current proposal calls only for cost containment measures.

The Medicaid cap and social and health services blocks may be accompanied by freedom from most of the regulatory restrictions previously imposed on states. The Reagan administration has suggested that the impact of reductions in federal financial participation can be minimized by eliminating service duplication and unnecessary federal oversight and by allowing states to prioritize their own service needs and exercise their own program control and coordination. These major changes contemplated in Medicaid and health and social services, the cost containment measures in AFDC proposed for FY 1982, and the possibility of imposed federal caps in the future, necessitate an examination of the impact of all three grant concepts on department programs and organizations.

In addition to funding reductions in these three major areas, the Reagan administration has also proposed reductions in a number of other programs which directly or potentially impact department clients and services. Examples are proposed reductions in food stamps and child nutrition; social security cost reduction initiatives in disability insurance and SSI, elimination of the CETA public service employment program, and proposed phase-out of Seattle's Public Health Service Hospital. The actual impact on the department from many of these program reductions can only be estimated and may not be fully realized until after they are actually implemented.

The department is confronted, therefore, with proposed funding reductions and broadened administrative responsibilities in three major areas: health and social services block grants, Medicaid, and AFDC. An anticipated, but not yet fully known, client and service impact will also result from other proposed reductions. These are complex and difficult conditions affecting basic department programs. A department response must be readied by the end of the current federal fiscal year, October 1, 1981. The following is a proposed process to meet this challenge.

PROBLEM STATEMENT

What is clearly needed is a process to implement anticipated federal block grants and/or funding limits in Medicaid and social and health services, and cost containment measures in AFDC. The process must facilitate an effective allocation of state and federal resources in concert with state priorities for client services, fiscal control and efficient management. The process must also provide for opportunities for public participation and appropriate coordination with the legislature. Formal action by the legislature may be required.

ASSUMPTIONS

1. Block grant legislation and funding reductions will become effective October 1, 1981.
2. The state will be granted maximum flexibility in administering federal funds within broad block grant areas.
3. FY 1982 federal appropriations will be substantially less than for FY 1981.
4. In the absence of full indexing for inflation, the proportion of federal dollars to state appropriated dollars will decrease each year.
5. Federal funding will no longer be a major factor in defining service priorities and department organization. Changes in organization or program structure may be desirable for an effective implementation of block grants.
6. Federal and state expectations for good management of department programs will not relax.

KEY CONSIDERATIONS

1. Budget Reductions - Federal financial participation will be substantially reduced. For example, based on preliminary data in the health and social services block grant proposals, the budget for the 1981-83 biennium might require a $80 to $90 million reduction. Reductions in funding should not necessarily be limited to these programs. Potential funding reductions must be viewed as a general budget problem affecting the entire agency.
2. Service Priorities - A DSHS statement of service priorities is needed. Departmental decisions are required to establish clear priorities for services to clients and client groups to be served, taking into account all legal requirements and needs.
3. Legislation - Statutory changes regarding service levels and client definitions may be required. Early coordination and communication with the legislature is important.

4. Public Participation - There must be opportunities for the public, including client interest groups and service provider groups, to participate in the decision-making process. DSHS program and regional advisory committees can be a principal means for achieving this participation.

5. Interagency Impacts - Some categorical grants, such as the Low Income Energy Assistance Program, are shared between agencies. Block grants will certainly cross agency lines. Community based services currently funded directly from the federal government will be folded into the block grants. The department must include other state, municipal and local agencies in the planning process and decision-making to promote an equitable allocation of available resources. More specifically, impact assessments will be necessary from these agencies.

6. Education - Chances for successful implementation of changes of this magnitude are greatly enhanced by staff commitment to department goals, and understanding and involvement in the process. A concerted education effort is required.

SUMMARY

DSHS is confronted with anticipated funding reductions in blocked service areas that cannot contain the impact of funding reductions. Because the proportionate federal funding level will be smaller each year, the impact will increase in succeeding years.

Block grants imply substantially reduced or eliminated federal regulations and oversight. This should permit the department to integrate itc state and federal appropriations to alter traditional categorical program approaches and to develop a strategy for agency-wide reallocation of resources.

The basic DSHS strategy should be to reconstruct programs reflecting the constrained funding situation. Such a strategy should:

- Lead directly and explicitly to fundamental definitions of the state's basic legal and service responsibilities;
- Provide for community review and comment; and
- Result in a viable agency program and budget with supporting legislation, if necessary, for presentation to the legislature.

PART II

IMPLEMENTATION

A department-wide strategy for the reidentification, redefinition, and recosting of basic responsibilities requires good organization and planning. DSHS has the resources within its organization to meet this challenge, but needs to adopt a structure to facilitate timely action, coordination and decision-making.

PRIMARY ORGANIZATION UNITS

Interagency Task Force: An interagency task force composed of representatives from the following organizations will be established: DSHS, Employment Security, Governor's Office, Office of Financial Management, Planning and Community Affairs, Legislature, Association of Washington Cities, Washington State Association of Counties, Region X, Department of Health and Human Services, and Superintendent of Public Instruction.

Representatives will meet periodically throughout the budget process to coordinate interagency actions and plans.

DSHS Executive Committee: The Executive Committee will be composed of the Secretary, Deputy Secretary and Assistant Secretaries and will be responsible for making final policy, program and budget decisions. In addition, the Executive Committee will issue initial program and budget guidance to program directors.

Special Task Force: A special task force will be formed to focus on proposed federal block grants and provide to the Executive Committee and program directors critical expertise in matters related to federal laws and regulations and state laws and regulations.

DSHS Divisions and Bureaus: Primary responsibility for developing detailed programs and budgets will be carried by program directors. Departmental services will assist programs in establishing internal management and fiscal controls and provide such other assistance as necessary, i.e., hearings, Attorney General opinions, etc.

DSHS Regions: Regional management committees will be requested to review and comment on the program perspective statements and the departmental budget proposal prior to its final adoption.

DSHS Advisory Committees: The process for program and budget development will include all sanctioned department program and regional advisory committees. Comments on draft proposals will be solicited.

DSHS Budget Office: The budget office will assist programs in preparing cost analyses and will develop the format and process for uniform budget building.

STRATEGIC PLAN

General

1. The 1981-83 biennial budget is the department funding base from which the proposed reductions in federal financial participation will be subtracted. The program and staffing reductions this budget already requires will make any additional reductions extremely difficult. Current federal proposals may require an additional 4-6% reduction.

2. All department divisions and bureaus will participate in developing a reduced agency budget; some programs will be reduced more than others.

3. Additional appropriations from the state legislature to alleviate the impact of the federal reductions will not be assumed at the start of the process.

4. Each program director will be responsible for defining and prioritizing program responsibilities in conformance with department policy guidance. Proposed budget reductions should be consistent with these assessments.

5. The availability, or potential availability, of community services provided by local government, churches, civic groups, volunteers, etc., will be taken into account in defining secondary program responsibilities.

6. Administrative and support functions will be reduced to those essential for service delivery and program management.

7. Alternative organizational structures and service delivery mechanisms will be considered; e.g., contracted services rather than direct service, technical and consultative assistance to communities in lieu of services, minimal monitoring and regulatory functions.

8. Current federal laws, regulations and reporting requirements in programs to be consolidated into block grants will be substantially reduced or eliminated. They should not constrain budget building.

9. Amendments to state laws may be necessary to implement program changes. Current administrative codes should not constrain budget building.

Implementation Steps

The process for reallocating funds will begin by requiring program directors to prioritize state service responsibilities without regard to cost. This step will facilitate a dialogue regarding general social, health and administrative problems which DSHS should address, the principle measures or actions it should take to alleviate these problem(s), and identification of realistic options available to the department. Programs serving the same clients or responding to similar kinds of needs will be expected to confer and propose coordination or consolidation. This initial step will help formulate a department policy statement outlining primary service responsibilities which must be met and client groups that must be served.

Concurrently, each program will begin building a budget that ultimately will display its services at different funding levels. Each level will reflect program and department priorities for clients and/or services and will contain descriptions and data describing the impacts of the reduced funding.

Step 1: The Program Perspective of Basic Client and/or Service Responsibilities.

Program directors will prepare a document entitled, "The Program Perspective of Basic Client and/or Service Responsibilities" and submit it to the Executive Committee no later than June 15, 1981. The document will be discussed with and reviewed by program advisory committees prior to its June 15 submittal. It will address client needs, primary service responsibilities, community impacts, legal implications and an assessment of the administrative support requirements attendant to these service responsibilities.

Regional offices and management committees will also receive copies and will comment in writing to the Executive Committee no later than June 30. Regional advisory committee comments will be incorporated into the regional office response.

1. Clients: Current and potential client populations should be identified as well as current definitions of eligibility for services. Criteria for prioritized groups of clients and potential clients should be set forth as well as proposals for changing definitions of eligibility concomitantly.

2. Services: Current services should be displayed indicating both clients served and levels of service. Primary services should be defined and displayed. Primary services are those which are mandated by law or which must be provided as the core of any program.

3. Community Impact: This section should contain an assessment of the ability of local communities to pick up services currently provided by DSHS.

   This section should also identify any community programs currently receiving federal funds directly which are likely to be folded into larger block grants. An assessment should be made of the impact of the reduction or loss of such direct federal funding on the local community.

4. Legal Implications: Federal regulations, state statutes or state regulations which conflict with choosing any service option should be identified.

5. Administrative and Support Services: Programs should clarify their assumptions of the administrative requirements, quality control activities, and other essential management functions.

Step II: The Department Perspective of Basic Client and/or Service Responsibilities

The Executive Committee will review each program perspective and develop a department perspective of basic client and/or service responsibilities. This document will set forth a departmental mission statement and specify program and budget guidance for use by program directors in developing any budgets. The document will be reviewed by the state advisory committee and the Interagency Task Force before its publication on or about July 1, 1981.

Step III:

The program directors will begin preparation of a program budget concurrently with Step I. Detailed guidance will be provided, requiring programs to develop alternative budgets, starting at a level equal to 60 percent of the 1981-83 biennial budget and building back in incremental blocks to the 1981-83 level. Any required changes in program structure or budget guidance resulting from Step II will be detailed in a Secretary's memorandum.

Program budgets will be submitted to the Executive Committee by August 17, 1981, after full discussion and review with program advisory committees.

Step IV: Program Budget Review and Decision

The Executive Committee will review each program budget and develop a department budget by September 15, 1981. The state and regional advisory committees, the regional management committees, and the Interagency Task Force will participate in the review of this budget proposal.

Step V: Governor's Review of DSHS Program and Budget Changes

The revised DSHS programs and budget will be submitted to the Governor for review and approval by September 15, 1981 in order to obtain a final decision for implementation on October 1, 1981. Any requirements for changes to state law or requests for additional funding will be submitted along with the department's revised programs and budget.

May 5, 1981

SUMMARY OF PRESIDENT REAGAN'S PROPOSED BUDGET REDUCTIONS IN HEALTH AND SOCIAL SERVICE PROGRAM AREAS

On February 18, 1981, President Reagan presented to the nation his "Program for Economic Recovery," in which he revealed his plan of spending and tax cuts to revive the nation's economy. On March 10, 1981 the administration presented details of this program and additional budget cuts to Congress in a revised fiscal 1982 budget. The following is a summary of those budget and program proposals with potential for impacting department programs and/or clients.

A. Block Grants

Up to 40 categorical grants are proposed for consolidation into four block grants. The proposed funding level for these block grants would be 75 percent of the federal fiscal 1981 appropriation for fiscal year 1982 and the three succeeding years. States would be given maximum flexibility in administering the federal funds within the block grant areas. A ten percent cross-over among the blocks is anticipated. Laws authorizing these programs would be repealed or not authorized.

Health Services Block Grant

Primary Health Care Centers
Primary Care Research and Demonstrations
Black Lung Services
Migrant Health
Home Health Services
Maternal and Child Health
Hemophilia
Sudden Infant Death Syndrome
Emergency Medical Services
Mental Health Services
Drug Abuse Project Grants and Contracts
Drug Abuse Grants to States
Alcoholism Project Grants and Contracts
Alcoholism Grants to States

*Estimated FY 1981 Allocation	Proposed Block Grant Allocation for FY 1982 - 1985 (each year)
$26,609,000	$21,009,000

Preventive Health Block Grant

High Blood Pressure Control
Health Incentive Grants
Risk Reduction and Health Education
Venereal Disease
Immunization
Fluoridation
Rat Control
Lead-based Paint Poisoning Prevention
Genetic Diseases
Family Planning Services
Adolescent Health Services

*Estimated FY 1981 Allocation	Proposed Block Grant Allocation for FY 1982 - 1985 (each year)
$5,136,727	$3,768,109

*Department of Health and Human Services estimates of Washington State's current program allocation for FY 1981 and block grant allocation for FYs 1982-1985. Block grant allocations are not exactly 75 percent of current level due to rounding and federal administrative adjustments.

Social Services Block Grant

Social Services
Day Care
State and Local Training
Child Welfare Services
Child Welfare Training
Foster Care
Child Abuse Prevention and Treatment
Adoption Assistance
Developmental Disabilities
Runaway and Homeless Youth
Community Services Administration
Vocational Rehabilitation Services

*Estimated FY 1981 Allocation	Proposed Block Grant Allocation for FY 1982 - 1985 (each year)
$82,059,673	$62,302,050

Energy & Emergency Assistance Block Grant

Low Income Energy Assistance
Emergency Assistance under the Social Security Act

*Estimated FY 1981 Allocation	Proposed Block Grant Allocation for FY 1982 - 1985 (each year)
$41,260,091	$30,379,241

*Department of Health and Human Services estimates of Washington State's current program allocation for FY 1981 and block grant allocation for FYs 1982-1985. Block grant allocations are not exactly 75 percent of current level due to rounding and federal administrative adjustments.

B. Medicaid (and Medicare)

1. Reduce federal Medicaid spending by $100 million during FY 1981.
2. Federal Medicaid increases limited to 5 percent in FY 1982 and in subsequent years rise only with the rate of inflation as indicated by the GNP deflator.
3. Provide states with program flexibility for financing and delivering services.
4. Repeal of several amendments in PL 96-499 directed at Medicare expansion.
5. Accelerate collections of state Medicaid expenditures from prior years that are currently before the Federal Grant Appeals Board.
6. Provide for immediate collection of all future disallowances as they occur.

C. Aid to Families with Dependent Children (AFDC) and Child Support Enforcement (CSE)

The Reagan plan proposes changes in AFDC and CSE programs designed to improve program administration, reduce fraud and abuse, and decrease federal and state costs. The Reagan administration has indicated interest in an AFDC block grant, but at this time has proposed only the following cost containment measures.

AFDC

1. Require retrospective accounting and periodic reporting for all AFDC cases.

2. Count income of stepparents and other persons living in the household with AFDC recipients.
3. Limit the AFDC program to dependent children under age 18.
4. Assume monthly receipt of the Earned Income Tax Credit (EITC).
5. Standardize the AFDC work experience disregard; cap the child care disregard; change the order in which the disregards are applied.
6. Limit the application of the 30 and 1/3 earned income disregard to four consecutive months.
7. Establish a gross income ceiling of 150 percent of the state's need standard for AFDC eligibility.
8. Prohibit payment of AFDC benefits of less than $10.
9. Permit states to take into account food stamp benefits and housing subsidies for AFDC purposes.
10. Require states to establish community work experience programs.
11. Require states to recoup AFDC overpayments and pay underpayments.
12. Place a limit on allowable resources in AFDC.
13. Average unearned income received as a lump sum payment.
14. Prohibit persons engaged in a labor strike from AFDC eligibility.
15. Reduce the federal matching rate for training expenses from 75 percent to 50 percent.
16. Permit liens on homes for value in excess of the average value of a home in the state.
17. Define an unemployed parent as the parent who is the principal earner for the family.
18. Remove the limitation on the number of vendor payments.
19. Mandate that AFDC parents attending college meet work requirements.
20. Establish a national recipient file.
21. Provide access to information about recipients to any federal, state, or local agency which needs the information to carry out its public duties.

CSE

1. Enforcement of spousal support through alimony collection.
2. Required fee for services to non-AFDC families.
3. State sharing of incentive payments.
4. IRS Intercept of Tax Refunds.
5. Prohibit Discharge of Child Support in Bankruptcy.

D. Supplemental Security Income (SSI)

1. Coordination with IRS for timely identification of bank accounts, interest and dividend income.
2. Convert to a monthly retrospective accounting system.

E. Old Age, Survivors and Disability Insurance (OASDI)

1. Eliminate the minimum payment level. Currently, beneficiaries receive no less than $122 a month.
2. Stricter insured status requirements for disability benefits would require that beneficiaries work in covered employment 1-1/2 out of the three years preceeding disability.
3. Establish a "mega-cap" on disability benefits so that the sum of benefits from federal, state and local programs to not exceed 80% of a workers pre-disability income.
4. Eliminate the lump sum death benefit except where the worker is survived by a widow, widower or young children.
5. Eliminate the SSI and SSDI funding for vocational rehabilitation programs.
6. Conduct an intensive review of disability insurance caseloads to eliminate the non-disabled.

F. Health Care and Regulation

1. Phase out professional standards review organizations (PSROs) and eliminate the requirement for utilization of review committees for providers not covered by PSROs).
2. Reduce/eliminate the number of surveys of health facilities required of the state certification program.
3. Phase out of the federal health planning program.
4. Phase out of the federal grant and loan subsidy program for health maintenance organizations (HMOs).
5. Two year phase out of the Indian Urban Health Program.
6. Closure and/or phase out of the 8 public health service hospitals (one is located in Seattle) and PHS clinics, and elimination of the current entitlement of free medical care to merchant seamen.

G. Aging

1. Consolidate aging services and nutrition activities into a new aging authority with increased state flexibility and funding at 1981 levels.
2. Consolidate aging discretionary activities into the new Office of Human Development Services Consolidated Discretionary Authority.

H. Refugee Assistance (IRAP)

Phase down of assistance levels to refugees meeting AFDC income tests but which do not meet family composition rules. If AFDC ineligible refugees live in areas with general assistance programs, federal benefits will equal the local program. In localities without general assistance programs, an AFDC benefit is authorized for the first 18 months and 50 percent of that for the second 18 months.

I. CETA

1. Phase out of CETA public service employment programs (Titles 11-D and VI of CETA) in FY 1981 and eliminate in FY 82.
2. Consolidation of all Title IV youth programs--the youth community conservation and improvement projects and youth employment and training programs--into the general purpose CETA training grants (Title II B & C). Reduce total outlay by $670 million in FY 82.

J. Youth Conservation Corps

The Youth Conservation Corps is proposed for elimination in FY 1981. The department is directly affected because of shared maintenance operations at Northern State Hospital with state operated mental health and alcoholism programs.

K. Food & Nutrition Programs

1. Food Stamps

   a. Set gross income eligibility limits at 130% of poverty (or at about $11,000 per year for a family of four).
   b. Pro-rate the first month's benefits.
   c. Freeze shelter and dependent care deductions at FY 81 levels.
   d. Require retrospective accounting to determine eligibility.
   e. Reduce food stamps to account for the receipt of school lunches.
   f. Repeal legislative changes imposed by the 1980 Food Stamp Amendments to be implemented next year.
   g. New management improvements in income verification, error prone profiles,.coupon replacement controls and computer tape matching.

2. Restrict supplemental feeding program for women, infants and children (WIC) to exclude applicants with relatively high income or without nutritional deficiencies.

3. Child nutrition programs will be reduced by eliminating federal subsidies for middle and upper income families of four with incomes above $15,630. Other support activities and subsidies will be reduced or eliminated.

L. Juvenile Justice and Delinquency Prevention

Juvenile Justice programs will be included in the Social Service Block Grant, but will not bring any FY 1982 funds to the Block.

M. Unemployment Compensation

1. Eliminate the national extended benefits program. Additional weeks of unemployment benefits would be directed toward workers in those areas with high unemployment which prevents them from returning to work.

2. Change the method of calculating the national trigger rate by eliminating extended benefits claimants from the count.

3. Raise the level of unemployment which triggers extended unemployment benefits from 4.5% to 5% or, 6% at state option.

4. Require unemployed workers after 13 weeks to seek employment providing wages equal to their unemployment benefits or at minimum wage, whichever is higher.

5. Require recipients of extended benefits to have worked 20 weeks in the one-year base period.

6. Deny benefits to those who voluntarily leave the armed services and are unable to find work.

Department of Social and Health Services Perspective on Implementation of Federal Budget Reductions and Block Grants

July 21, 1981
Department of Social and Health Services

Preface

The Department of Social and Health Services (DSHS) is faced with an austere budget for the 1981-83 biennium. Further reductions will be necessary once Congress completes action on President Reagan's budget proposals. Social and health services programs are among those most heavily impacted by proposed federal budget reductions. In addition, there is a possibility that state welfare caseloads will rise as federal programs are eliminated or cut back.

Since a number of DSHS programs are heavily dependent on federal funding, it is necessary for the department to begin building a new budget for the 1981-83 biennium. The purpose of this document is to increase public awareness of impending budget cuts and to enlist public support and assistance in finding reasonable ways of maintaining the most essential services in the face of diminishing resources.

The department is approaching this task not simply as a requirement to cut back on services but also as an opportunity to conduct a critical review of departmental programs and operations. There are many obstacles to making major program changes, including federal and state laws and regulations. In going through this program and budget review, the department assumes that most of these obstacles can be overcome. From the state's standpoint, one of the strong positive features of the President's proposals is a willingness to allow the states more flexibility in administering programs that are partially federally funded.

Briefly, the process which the department has been following in developing a new budget includes these steps:

1. Each program developed a Program Perspective, describing its clients, services, and priorities.

2. The Program Perspectives were reviewed with program advisory committees, regional advisory committees, and the DSHS State Advisory Committee.

3. The DSHS Executive Committee (Secretary, Deputy Secretary, and two Assistant Secretaries) met with the program directors to review the Program Perspectives, to gain an understanding of basic program issues, and to identify areas of potential savings.

4 The department has met periodically with the Interagency Task Force* to ensure that departmental planning is coordinated with that of other federal, state and local agencies.

5. The department sets forth in the present document its mission and service priorities for public review and comment. This statement includes general and program specific guidelines for developing a revised budget.

6. DSHS will arrange public meetings to provide an opportunity for comment on this document.

7. DSHS program directors will prepare decision packages on the items listed under Guidelines for Specific Programs.

8. The department, after reviewing the public comment and the completed decision packages, will provide program directors with budget decisions.

9. The programs will develop revised budgets for the 1981-83 biennium.

10. The proposed budgets will be reviewed with departmental advisory committees and the Interagency Task Force.

11. The department will make recommendations to the Governor on a revised DSHS budget for the 1981-83 biennium.

DSHS Mission

The Department of Social and Health Services was established by the Legislature to protect both the general public and persons who are unable to care for themselves fully or to meet their basic needs. The department protects the general public from such hazards as communicable disease, radiation and polluted water supplies. It protects disabled persons, the mentally ill, and abused children and adults who are unable to care for themselves. It protects the neediest members of society from being denied the basic requirements for sustaining life—food, clothing, shelter, and medical care.

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*Consists of representatives of Legislature, Governor's Office, Department of Health and Human Services (Region X), Association of Washington Cities, Washington State Association of Counties, Superintendent of Public Instruction, Office of Financial Management, Planning and Community Affairs Agency, Department of Employment Security, and Department of Social and Health Services.

In carrying out these responsibilities, the department strives through rehabilitation, treatment, assistance, and service programs to help people become more self-sufficient and independent. It also works to keep families together. Local government and citizen groups are active and essential partners in meeting these basic human needs. In addition, the federal government plays an important role by providing part of the required funds.

Within the many populations served by the department, there are varying levels of need. The department focuses its efforts on those persons whose service needs are most critical, which means that some otherwise desirable services cannot be provided. One of the department's major obligations, particularly at a time of diminishing resources, is to establish priorities among competing demands for assistance.

Relationship of Current Services to DSHS Mission

The relationship between the department's mission and the services it provides must be clear and direct. Listed below are some of the services provided, grouped by major categories of need.

Protection of the General Public

- Organizes and monitors immunization services for all school-age children.
- Regulates 8,100 public water supply systems, 640,000 on-site sewage disposal systems, and 4,500 facilities using radioactive materials or X-rays.
- Conducts shellfish inspection on 600 miles of shoreline.
- Surveys, licenses, and certifies over 1,500 health care facilities.

- Identifies and takes action to control outbreaks of communicable disease.
- Incarcerates and treats mentally ill offenders and serious juvenile offenders.

Protection of People Unable to Care for Themselves

- Investigates 3,000 cases per month of alleged child abuse, neglect, or exploitation.
- Maintains 3,500 children in foster care.
- Serves 2,000 residents of state schools for developmentally disabled persons.
- Serves 1,300 mentally ill persons in state hospitals.
- Provides partial support for community mental health centers, which treat 17,800 patients per month.
- Arranges for home-delivered meals to 3,600 frail, elderly persons per month.
- Contracts for transportation services to 8,500 elderly persons per month.
- Provides vocational training and rehabilitation therapy to 15,200 severely disabled persons per year.
- Purchases care for 17,000 patients in nursing homes.
- Provides for the care of 3,500 persons residing in congregate care facilities and adult family homes.
- Contracts for chore (in-home) services for 10,500 elderly or disabled persons per month.
- Helps 25,000 elderly persons per month to identify and use community programs.
- Provides partial support for outpatient alcoholism and substance abuse treatment services for 20,000 persons per year.

Protection of Needy Persons

- Makes monthly payments to 53,000 single-parent families with little or no other income.
- Provides a monthly state supplement to 40,000 aged, blind, or disabled persons receiving federal Supplemental Security Income (SSI) payments.
- Makes monthly subsistence payments to 7,700 incapacitated persons who are not eligible for the federal SSI program.
- Distributes federal food stamps to 110,000 low-income families per month.
- Pays for medical services provided to 127,000 needy persons per month.
- Contracts for day care for 10,000 children per month to enable low-income parents to seek employment, be employed, or obtain work-related training.
- Provides basic life support assistance, counselling and training, and employment services for 18,000 refugees.

Role of Local Government, Charitable Organizations, and Volunteer Groups

Local public and private agencies have traditionally played a major role in the provision of social and health services. Local governmental agencies, charitable organizations, and volunteer groups make a substantial contribution to meeting important human needs through actual expenditures and donated time. In many cases, local entities are in a better position to provide these services than is the state. Examples include non-profit community hospitals, programs for youths convicted of minor offenses, programs for alcoholics, and services provided through local health departments.

Administration of some programs is exclusively the responsibility of the state. Among these are income assistance and medical assistance programs. Local governments do not now share in either the funding or administration of these programs and should not be expected to do so.

In some programs, responsibility is shared by the state and local public and private agencies. Examples of this kind of cooperative arrangement are community mental health centers, alcoholism and drug treatment centers, and services provided through the Area Agencies on Aging.

The department is committed to continuing its cooperative relationship with local public and private organizations. This growing partnership will be reinforced, and the department will intensify its efforts to work closely with local communities in order to promote the best use of available state and local resources.

Federal Participation in DSHS Programs

The decades of the sixties and seventies saw a rapid growth in federal financial assistance to states to provide human services. Income and medical assistance programs and a variety of categorical grant programs were created or expanded by Congress under the general guidance of loosely articulated national priorities and goals. Implementation carried with it a complex and elaborate set of regulations and administrative planning and reporting requirements for each separate grant. These were aimed at defining and accounting for service provision, client eligibility, and expenditures.

Washington, as well as other states, generally regarded the offers of federal assistance as opportunities to provide needed services that could not be provided with state revenues alone. These federal funds now make up 45% of the DSHS budget.

The Reagan Administration has set budget targets that will require reductions in almost all areas of federal support, including health and social services. In addition, the President has proposed consolidating up to 40 categorial programs in health and social services into four block grants (Health Services, Preventive Health, Social Services, and Energy and Emergency Assistance), and the administration has offered the states the freedom to fund programs within each block according to state priorities.

It is not clear how much of the proposed flexibility will be in the legislation finally passed by Congress. Both the Senate and the House of Representatives are considering changes in the President's block grant proposals. Some of these changes would limit severely the states' flexibility under block grants. Nevertheless, since the new federal budget takes effect on October 1, 1981, the Department of Social and Health Services has no choice but to develop plans based upon its best estimate of the changes that will occur.

Planning for the Transition

Building a budget is never an easy undertaking. It is much more difficult, however, when many state budgetary decisions hinge upon action by Congress. The problem is complicated further by the fact that the new federal fiscal year begins October 1, 1981, which means the state must begin adjusting soon after to any budget reductions made at the federal level.

Because of this time constraint, the department has had to make a number of assumptions as to what action Congress will take on the President's proposals. While there are many large issues yet to be resolved, we have assumed that most of the President's proposals will eventually be approved. This applies to both the budget reductions and the increased flexibility the states would have under block grants.

As a matter of equity, the department has chosen to review all of its programs, not just those directly affected by the proposed federal budget reductions. In order to meet essential needs, it may be necessary to shift some state funds from one program to another to make up for the loss of federal funds.

Throughout this process it has been necessary to consider program interrelationships and how reductions in one program might affect others. It seems clear, for example, that major reductions in services designed to let people remain in their own homes could result in an increase in the number of persons requiring institutional placement. These interrelationships and their impact require careful analysis. The department will continue to assess them as more decisions are made at the federal level.

Prioritization of Services

The focal point for any prioritization of departmental services must be the mission statement. While a number of service reductions will be necessary, they will not alter the basic mission of the department; such reductions must be consistent with the mission statement. Within the framework of the department's overall mission, our purpose is to minimize the adverse impact of the required budget reductions and to preserve the most essential services.

While the department has reached tentative conclusions on priorities of services, no final decisions have been made on specific budget reductions. We are, in effect, at a midway point in the budget building process. It is our intent that these preliminary priority determinations be reviewed and commented upon by all interested groups. To facilitate this process, the department will schedule several public meetings to invite comments and reactions. In addition, anyone wishing to submit written comments to the department is invited to do so.

Underlying this process are several assumptions that need to be made explicit. In adopting a set of tentative service priorities, we assumed the following:

1. The extent of the federal budget reductions will be close to the amounts proposed by President Reagan. For DSHS, this would mean a loss in federal revenue of at least $110,000,000 for the 1981-83 biennium.
2. Congress will accept a major share of the President's block grant proposals.
3. The states will have considerable flexibility in planning and expending federal funds within each block.
4. The states will have some additional leeway in administering the Medicaid program.

5. The Legislature will approve the bills required to implement changes proposed in the revised budget.

6. No additional state funds will be available to replace lost federal revenue.

While such assumptions are necessary in order for planning to proceed, certain caveats are in order. First, it is possible that Congress will reject or modify substantially the President's block grant proposals. If this occurs, the state may find itself with less federal funding and little relief from federal regulations and controls. While one or more of the assumptions may prove to be invalid, the approach we are taking to the budget building process will enable us to adjust rapidly to Congressional action. Second, the Legislature may be unwilling to approve some of the changes proposed in the revised budget.

In conducting this review, the department has benefited from suggestions offered by the DSHS regions, advisory bodies, and interested groups as to how services should be prioritized. These suggestions, coupled with input from departmental staff, produced the following priority groupings (services are not ranked within groupings).

First Priority: Basic Life Support Services

Those services designed to ensure provision of essential food, shelter, clothing, medical care, and physical safety for persons unable to do so for themselves:

- Protective services for children, frail aging, and mentally disabled persons.
- Financial assistance for needy single-parent families, aged, blind or disabled persons, unemployable adults, refugees, and those in need of emergency assistance.
- Food stamps for low-income households.
- Residential care for persons requiring 24-hour care, including those in institutions, foster care, group care, nursing homes, or emergency shelters.
- Medical care (acute/emergent) for needy persons.

- Infectious disease control.

Second Priority: Services to Avoid or Reduce the Need for Basic Life Support Services

- Employment counselling and training for financially needy persons or for disabled persons seeking to become more self-sufficient.
- Maintenance of independent living for disabled persons.
- Crisis intervention for children and parents of families in conflict.
- Community outpatient services for the mentally ill and for persons requiring treatment for alcohol or drug abuse.
- Medical care (restorative, preventive) for financially needy single-parent families, aged, blind, and disabled.
- Family planning for adolescents and young adults.
- Nutritional programs for aging persons with limited incomes.
- Adoption of children with special needs.
- Support services, such as day treatment, day care, and chore services, for elderly and handicapped persons at risk of institutional placement.

Third Priority: Services Designed to Improve Access to the Service Delivery System

- Information and referral for elderly persons and for disabled individuals and their families.
- Advocacy/ombudsman for elderly and disabled persons.
- Volunteer programs for persons living in institutions.
- Pilot/demonstration projects.
- Outreach.

Decision Packages

Having prioritized departmental services, it is necessary to identify those that might be modified with the least adverse effect on clients. Careful examination of a large number of alternatives is required in order to select those most appropriate for implementation. This will be done by developing decision packages for a number of services in every program. Decision packages will systematically display information required to draw conclusions on particular issues. These packages are discrete units that can be decided standing alone. They will surface alternatives to present services in every program.

Inclusion of an item on the list of issues for which decision packages will be prepared in no way implies that the issue has already been decided. Rather, it is a way of surfacing areas that will be examined, as the department adjusts its 1981-83 biennial budget for the expected loss of $110 million in federal funds. A reduction of this magnitude requires that all programs be reviewed in order to provide the state with opportunities to shift state funds among programs as a means of preserving essential services.

Each decision package will cover the following:

- Description of issue.
- Reason for change/reduction.
- Impact of change/reduction on clients.
- Impact of change/reduction on other organizations.
- Required changes in state and federal laws and regulations.
- Assumptions on when change/reduction would take effect.
- Fiscal impact.

Over the next month, DSHS will prepare decision packages on the issues listed in the section Guidelines for Specific Programs. The decision packages, supplemented by public comment, will provide the basis for the department's recommendations to the Governor for reductions in the 1981-83 biennial budget.

General Guidelines

During the course of reviewing departmental programs, a number of issues emerged that require attention by most divisions of the department. In order to deal with these, each program is expected to develop decision packages that address the feasibility of the following:

- Reducing, consolidating, or eliminating information and referral, advocacy and outreach functions.
- Eliminating regulatory functions not clearly essential to safety and health.
- Establishing fees to recover the full cost of licensure, certification, and inspection activities.
- Establishing fees for clients or parents of service recipients, based upon ability to pay.
- For those services also provided by local governments or charitable organizations, estimate after appropriate consultation with these organizations their capacity to provide additional services.
- Increasing volunteer activity to offset reduced state services.
- Requiring biennial rather than annual service plans for county programs partly or wholly funded by DSHS.
- Entering into two-year rather than one-year contracts with certain types of service providers.
- Reinforcing activities that help to offset departmental costs, such as a) ensuring that Medicaid funds are not spent for services covered by clients' private health insurance and b) collection of child support from absent parents of AFDC children.
- Reducing administration and support activities in proportion to service reductions.
- Increasing the efficiency and effectiveness of service delivery systems.

Guidelines for Specific Programs

Listed below for each DSHS program are issues that will be addressed during the current budget building process. Decision packages will be prepared examining the feasibility of each item listed.

Aging and Adult Services

- Substitute direct grants to clients for adult family home and congregate care payments in order to reduce state licensing, regulatory and other placement-related activities.
- Control adult family home and congregate care costs by reducing the financial eligibility criteria or reducing the scope of care purchased.
- Divert nursing home admissions through the use of direct payments to individuals for the purpose of purchasing in-home support services.
- Reduce chore service costs through absolute eligibility limits or increasing the client share in the cost of services.
- Review each service component (for example, social day care, minor home repairs, nutrition education) funded through the Senior Citizen Services Act from the standpoint of complete elimination or the use of standard client fee schedules where none exist now.
- Reduce expenditures for Area Agency on Aging planning, administration, coordination, monitoring, and contracting functions.

Alcohol and Substance Abuse

- Establish fee schedules for all mandated licensure and inspection activities.
- Establish standard client fee schedules to be used by contracted agencies.
- Examine contracting alternatives, including multi-year contracts, direct contracting with service providers, or mini block grants to counties.

- Examine, in conjunction with the Division of Mental Health, the possibility of closing the Northern State facility.
- Reduce the scope of services within the drug and alcohol programs while maintaining a reasonable continuum of care, giving priority to those services directly related to basic life support and public safety.

Children's Services

- Examine, in conjunction with the Divisions of Juvenile Rehabilitation and Developmental Disabilities, the appropriate allocation and funding of group care beds now operated under the supervision of the Bureau of Children's Services.
- Place limit on the length of time a child may reside in group care.
- Restrict or eliminate voluntary foster care placements.
- Increase the minimum age for group care placement, placing an upper limit of 18 years of age on foster care.
- Restrict the scope of services to children in foster placement.
- Restrict the adoption program to hard-to-place children.
- Terminate adoption support at age 18.
- Restrict day care to that associated with child protective services.
- Restrict family foster home licensing to homes used by the department.
- De-regulate family day care.
- Extend licensing intervals and limit or eliminate monitoring visits.
- Examine options for restricting the services provided and/or purchased in the child protective, family reconciliation, sexual assault, domestic violence, and homemaker programs.
- Defer, reduce, or eliminate the discretionary rate increases planned for Crisis Residential Centers and day care on January 1, 1982 and January 1, 1983.

- Implement consistent fee schedules for all programs and, in conjunction with Support Enforcement, optimize the level of parental support for children in foster care.

Developmental Disabilities

- Eliminate regional information and referral services.
- Charge recipients of service and/or their parents for the cost of services, based on ability to pay.
- Schedule vacation closures of certain components of state-owned residential facilities.
- Reduce case management services.
- Limit eligibility criteria to restrict services to persons under 60 years of age.
- Limit eligibility for new clients to restrict services to the most severely handicapped.
- Transition the respite care program from contracted to volunteer providers.
- Limit program hours available to adults in state-owned residential facilities and in contracted programs.

Health Services

- Develop fee schedules to recover full service costs of licensing and regulatory activities.
- Reduce services of the Public Health Laboratory and establish fees for services where appropriate.
- Reduce the scope and level of personal health services, such as family planning, crippled children, and maternal and child health.
- Reduce health systems planning and regulatory activities.
- Reduce level of service to Class 4 water systems (2-10 users) and regulation and training of waterworks operators.

- Eliminate health and sanitation inspection in transient accommodations and state institutions.
- Reduce administrative consultation to local health departments.
- Eliminate or reduce funding for special projects, such as waterborne disease, diabetes demonstration, and environmental protection pesticide projects.
- Reduce health data contracts.
- Reduce general health screening programs, such as dental, gonococcal, and hypertension.

Income Assistance

- Implement mandatory federal AFDC changes. Separate decision packages will be constructed for those changes having fiscal impact, including the following:
    - Change level and duration of income disregards.
    - Limit allowable gross income.
    - Eliminate payments below $10.
    - Treat food stamps and housing subsidies as offsets.
    - Mandatory recovery of overpayments due to departmental error.
    - Limit allowable resources.
    - Treat lump sum payments as income.
    - Limit eligibillity of pregnant women for AFDC.
- Examine workfare options.
- Equalize grant standards through two approaches:
    - Apply scheduled increase (7/1/82) only to Area 2.
    - Decrease Area 1 to Area 2.

- Eliminate second month of Consolidated Emergency Assistance Program.
- Eliminate food stamp outreach.
- Eliminate items of special need not covered in the basic grant.
- Optimize the level of AFDC support enforcement collections. This will include implementation of those changes mandated by the federal government.

Juvenile Rehabilitation

- Terminate state funding for local diversion programs.
- Terminate parole services and close learning centers.
- Terminate consolidated juvenile services, including community corrections programs, special projects and probation subsidy.
- Reduce management and program support to regional and institutional programs.
- Revise manifest injustice statute to reduce average daily population and decrease the need for institutional beds.
- Cancel or delay plans to open Ahlsten and Parke Creek Group Homes; close 30 community residential placement beds funded by the Division.
- Revise sentencing standards to reduce the need for institutional beds.

Medical Assistance

- Restrict coverage for GAU eligibles to treatment for acute and emergent conditions.
- Eliminate coverage for GAU eligibles.
- Eliminate coverage for the medically indigent.
- Eliminate coverage for AFDC adults.
- Use patient copayments and/or deductibles to modify utilization patterns, reduce general utilization, and save direct state costs.

- Optimize recoveries and cost avoidance through intensification of third party collections.
- Strengthen direct utilization controls on hospital admissions and length of stay.
- Assess the effect of reimbursement modifications on utilization patterns.
- Assess the potential for cost reduction (both administrative and benefit costs) by relaxing the prescription drug formulary and attendant screening.
- Eliminate EPSDT informing requirements and provision of specialized services (transportation and scheduling).
- Assess, in conjunction with the Division of Mental Health, methods of better managing the use and provision of psychiatric services.

Mental Health

- Increase fees, insurance, and other first and third party reimbursements to community mental health agencies and state mental hospitals.
- Develop alternative methods for funding and administration of county mental health programs.
- Limit state reimbursement to basic community mental health services for the seriously disturbed and chronically mentally ill of all ages.
- Defer implementing new programs--Children's Hospital Alternative Program (CHAP) and case management expansion.
- Limit the implementation of new residential beds for psychiatrically impaired children.
- Terminate all state-sponsored special projects--discretionary, case management, Spokane, Children's Hospital Alternative Program, violent children, Homebuilders, children's acute hospitalization, professional training.
- Reduce mental health congregate care program expenditures.

- Eliminate all voluntary admissions to Eastern State Hospital and Western State Hospital.
- Reduce administrative and support costs at the state hospitals.
- Consolidate Eastern State Hospital's mentally ill offender and sexual psychopath programs with those at Western State Hospital.
- Close or reduce staffing of PORTAL program or relocate it to Eastern State Hospital.
- Increase the use of volunteers and WIN participants in the state hospitals and Child Study and Treatment Center.
- Propose revisions in state laws and regulations governing the Involuntary Treatment Act and the sexual psychopath and mentally ill offender programs to promote cost effective services and minimize administrative and legal costs.

Nursing Home Affairs

- Eliminate nursing aid training.
- Reduce current 85th percentile lid on nonwage administrative costs.
- Eliminate or reduce patient care enhancement initiative.
- Reduce required registered nurse coverage:
    - one shift
    - two shifts
    - other mix
- Increase use of Medicare or other third party liability.
- Permit flexibility in physician certification and recertification.
- Revise schedules for utilization review/recertification.
- Eliminate medical care evaluation studies.
- Eliminate surveying for paper compliance.
- Reduce frequency of on-site post-surveys.

- Permit licensing and certification for up to two years.
- Eliminate separate appropriation expenditure accounting for federal and state funds.
- Simplify federal accounting and reporting procedures.

Vocational Rehabilitation

- Eliminate innovation and expansion grants.
- Eliminate voluntary state match to special projects.
- Reduce the number of non-severely disabled clients served.
- Reduce the frequency and/or duration of certain services, such as placement, training, transportation, and restoration.
- Reduce the number of clients placed into extended sheltered employment.
- Increase financial participation of those receiving services.
- Eliminate technical assistance provided to sheltered workshops.
- Transfer responsibility for the payment of costs related to certification /accreditation to sheltered workshops.
- Reduce the number of small local offices.

It should be reaffirmed that no decisions have been made on any of the issues listed in this section. The purpose is to surface alternatives that can be considered as the department revises its 1981-83 biennial budget to adjust for the lost federal revenue.

Federal Grants to Local Communities

For many years, the federal Department of Health and Human Services (DHHS) has awarded grants directly to communities without passing the funds through state agencies. These grants are most common in mental health, primary community health care, migrant health care, alcohol and drug abuse, and social services related to runaway youth. Most of the grants go to private non-profit agencies; some go to county and city governments and to universities. Block grant legislation under consideration by Congress would make the states responsible for managing these federal monies.

The block grant legislation also includes funding for Community Action Programs now administered by the federal Community Services Administration (CSA). The 40 CSA grants now funded are located in communities around the state and in several Indian tribal jurisdictions. DSHS has recommended to Governor Spellman that the state Planning and Community Affairs Agency assume responsibility for these programs.

The Department of Social and Health Services has adopted an interim policy covering federal grants which, in the past, have been made directly to local entities. The policy applies only to those grants that the department would administer and would have some flexibility in allocating funds for federal fiscal year (FFY) 1982. The main elements are described below.

1. The state will award funds in FFY 1982 to all grantees receiving awards in FFY 1981 for whom the responsible federal agency certifies that a) the grantee would be eligible for FFY 1982 funding and b) the grantee is in compliance with federal program and management standards. These renewals will be made when FFY 1981 grants expire.
2. Grant renewals will be awarded starting October 1, 1981 at the federally appropriated, prorated reduction for all programs whose funding is included in the block grants. Agencies operating under a previously established declining funding schedule, such as community mental health centers, will experience the prorated reduction or the scheduled reduction, whichever reduction is greater.
3. All contract renewals made by the state in FFY 1982 will extend only through June 30, 1982. The contracts will prorate the grant award for those months of eligible operation. For example, a renewal from January 1 to June 30 would be awarded at 1/12 the total grant for each of the six months of operation. -

This interim policy will enable agencies to plan their services for the next year and will provide additional time for analysis of these grants from both a statewide and community perspective. A long-term policy for allocating funds, either by contract or by mini block grants, can be developed jointly by the department and local governments for consideration by the Legislature.

STATE OF WASHINGTON

JOHN SPELLMAN, GOVERNOR

DEPARTMENT OF SOCIAL AND HEALTH SERVICES PLAN TO OFFSET THE LOSS OF FEDERAL FUNDS AND TO IMPLEMENT BLOCK GRANTS

Alan J. Gibbs, Secretary

September 29, 1981

DEPARTMENT OF SOCIAL AND HEALTH SERVICES PLAN TO OFFSET THE LOSS OF FEDERAL FUNDS AND TO IMPLEMENT BLOCK GRANTS

Overview

This is a plan developed by the Department of Social and Health Services (DSHS) to reduce expenditures in order to offset the anticipated loss of federal funds. The plan reflects the provisions in the federal 1982 Omnibus Reconciliation Act. It does not cover further reductions that may result from the President's proposal of September 24.

In developing the plan, the department has tried to avoid making reductions (within the limits of federal laws and regulations) that would curtail or deny services to those persons least able to care for themselves. In some cases, the federal budget cuts will fall on services DSHS considers essential. Where this will occur, the department proposes to shift state funds from lower priority services to make up at least partially for the lost federal dollars.

This plan is designed to minimize adverse impacts on DSHS clients without transferring responsibilities to local governments or to charitable organizations which they cannot be expected to assume. Thus, after making a technical adjustment to account for assistance caseloads that are lower than expected, the department developed its expenditure reduction plan by cutting back first on regulatory activities and administrative and support functions. The next savings were from increased fees and collections. Only after these savings areas had been utilized were direct services to clients reduced.

The Department's Expected Loss of Federal Funds

Several months ago, the department began a comprehensive review of its programs in anticipation of federal budget reductions. The review involved not only departmental staff, but also citizen advisory bodies, local governmental agencies, service providers, client advocacy groups, and the general public. The product of this effort is set forth in this document.

The planning process has been complicated by a number of factors. First, the department had to plan for implementation of the budget adjustments as of October 1, 1981, even though it is clear that final Congressional action will not occur until sometime after that. As of this date, Congress has passed the authorization act (1982 Omnibus Reconciliation Act), but not the appropriation bill; in many cases, the actual appropriations are expected to fall short of the authorized levels. Second, there may be a second round of federal budget cuts, which could further reduce federal support for DSHS programs. Third, it has not been clear until recently what action would be taken on block grants and how much flexibility states would have to shift funds among programs within blocks. While Congress and the President have made basic decisions on which programs will be included in block grants, many questions remain unanswered and will be clarified only when federal regulations are issued. Fourth, state revenues have fallen substantially below projected levels, necessitating severe budget reductions beyond those required by federal action. These reductions are not detailed in this plan.

The department made several decisions when it undertook this task. First, this would be an open process, with considerable opportunity for public involvement. Second, service reductions would be made where they would have the least adverse impact on clients. Third, no program would be exempted from the review, and funds might be shifted from a totally state-funded program to one that loses federal funds, depending on priorities. In other words, the department's plan for absorbing federal budget cuts would not simply mirror federal actions but would be developed in accord with priorities established in the State of Washington.

The precise amount of the department's loss of federal dollars will not be known until Congress passes the Appropriations Act. However, based upon the Omnibus Reconciliation Act, the department anticipates a reduction in federal funds during the balance of the 1981-83 biennium ranging from $50,000,000 to $70,000,000. The budget cuts will occur in a number of federally supported programs, including Title XX (Social Services), Title XIX

(Medicaid), Basic and Preventive Health Services, Vocational Rehabilitation, Mental Health, and Drug and Alcohol Abuse. The department has taken special steps to keep abreast of Congressional actions and to assess the impact of these actions on DSHS services.

Block Grants

Block granting of federal funds to the states was an important part of the President's proposal for reducing expenditures. The intent was to allow states greater flexibility in allocating reduced federal dollars among competing programs. In the Omnibus Reconciliation Act, Congress accepted some of the block grant proposals but left a number of categorical programs outside the blocks. Block grants increased in number, they differ in composition from those originally proposed, and they contain more restrictions than proposed. Authorized funding levels are generally higher than the President proposed, but appropriations may well reduce them to lower levels. The Act created the following blocks:

Health:	Alcohol, Drug Abuse, Mental Health
	Primary Care
	Maternal and Child Health
	Preventive Health
Social Services:	Social Services
	Community Services
Energy Assistance:	Low Income Home Energy Assistance Program

DSHS will administer the block grants for Alcohol, Drug Abuse, and Mental Health; Maternal and Child Health; Preventive Health; and Social Services. The federal government will administer the Primary Care block grant during Federal Fiscal Year (FFY) 1982. The State Planning and Community Affairs Agency will administer the Low Income Home Energy Assistance Program block grant and the Community Services block grant.

Within certain block grants, there are funds that have flowed directly from the federal government to local entities. DSHS will administer these segments of the block grants in accordance with its interim policy on federal grants to local agencies. Beginning October 1, 1981, those local agencies eligible for funds in FFY 1982 will be awarded grants at the federally appropriated, prorated reduced level. These contracts will extend only through June 30, 1982. Prior to that date, the department will develop, in collaboration with local agencies, a long-term policy for allocating funds, either by contract or mini block grants.

The department considered introducing a mini block grant concept on a limited basis beginning in October. This was rejected for two reasons: 1) there was insufficient time to do detailed planning for implementation and 2) the Omnibus Reconciliation Act does not allow much flexibility in administering these funds during the first year. In the coming months, the department will explore with local agencies the feasibility of implementing mini block grants in such programs as alcohol and drug abuse. If there is agreement that the approach is sound, it could be implemented in the next fiscal year.

The Review Process

In proceeding with the task of generating savings to offset the loss of federal funds, the department could have chosen the relatively easy approach of simply applying the federal cuts to the affected programs. Another approach would have been to apply a percentage reduction to all departmental program budgets. The department chose instead to adopt a process that allowed for a critical analysis of existing programs, public input on the relative importance of DSHS services, and the formulation of an expenditure reduction plan that reflects the basic mission and service priorities of the department. Because of the importance of this undertaking, a process was designed to allow for broad public participation. Key elements of the process are described below:

Program Perspectives

Each program director developed a program perspective, describing clients, services, and priorities. DSHS management then reviewed these with program directors. The DSHS State Advisory Committee, the six Regional Advisory Committees, and various advisory bodies associated with specific programs also reviewed the perspectives and offered useful comment on them. The program perspectives provided the basis for identifying a number of issues related to funding requirements for each program.

Department Perspective

The department synthesized the program perspectives into a document entitled "Department of Social and Health Services Perspective on Implementation of Federal Budget Reductions and Block Grants." This contained a mission statement and categories of service priorities. It also listed a number of departmental and program-specific issues on which decision packages were to be prepared. Again, various advisory committees were invited to comment on the draft before it was given general distribution.

Public Review and Comment

Meetings were held in each DSHS region to allow for public comment on the departmental perspective. Approximately 1,500 persons attended these meetings. In addition, the public was invited to offer written comments on the document; nearly 1,000 individuals and organizations responded. DSHS staff also met with service providers and client advocacy groups to explain the budget problem, examine options, and solicit constructive suggestions.

Involvement of Other Federal, State and Local Officials

Early in the process, the DSHS Secretary established an Interagency Task Force* to ensure that the department's planning for anticipated federal budget reductions was coordinated with other state agencies and with federal and local agencies. DSHS representatives also met with individual legislators and groups of legislators to explain the process and to respond to their

*Consists of representatives of the Legislature, Governor's Office, Department of Health and Human Services (Region X), Association of Washington Cities, Washington State Association of Counties, Superintendent of Public Instruction, Office of Financial Management, Planning and Community Affairs Agency, Department of Employment Security, and Department of Social and Health Services.

questions. In addition, DSHS staff held meetings with representatives of cities and counties, health planning agencies, and other local organizations with a strong interest in the department's programs and services.

Decision Packages

The DSHS programs developed decision packages on the issues listed in the departmental perspective. Each of these identified options for change, impacts on clients, potential cost savings, projected implementation dates, and any required changes in federal or state laws or regulations. The six DSHS regions reviewed and commented on more than 200 decision packages.

Prioritization

Drawing upon substantial public comment and reaction, as well as recommendations of program directors, department management conducted a detailed review of all decision packages and ranked them in priority order. These priorities provide the basis for the expenditure reduction plan.

The process, though difficult, has been constructive. While there is general agreement on the need for program evaluation, it often does not occur to the extent it should. The present process has provided a strong incentive for a careful look at what we are doing, both by ourselves and by others. It has suggested areas, such as adoption, where the private sector can assume more responsibility. It has identified activities, such as providing information to prospective clients and referral to services, where local communities can share responsibility with the state. And most important, it has underscored the department's obligation to focus its services on those persons most in need.

A question frequently asked during the review process was whether the department, through its prioritization of services, was showing a bias toward institutional programs and neglecting services aimed at keeping people out of institutions. This concern is understandable, especially since institutional programs were left largely untouched. While recognizing the value of many alternative community services, the department must give priority to those persons whose needs are most critical. In this respect, DSHS views itself as the "agency of last resort" for persons who have exhausted all other avenues in seeking assistance.

The department recognizes the need for a continuing interaction with local communities as it implements changes. The value of strong community involvement has been demonstrated throughout the review process. The department is also sensitive to the impact of these changes on local government and community agencies. Every effort will be made to work closely with local entities to facilitate the adjustment to these changes.

DSHS Mission

The Department of Social and Health Services was established by the Legislature to protect both the general public and persons who are unable to care for themselves fully or to meet their basic needs. The department protects the general public from such hazards as communicable disease, radiation and polluted water supplies. It protects disabled persons, the mentally ill, and abused children and adults who are unable to care for themselves. It protects the neediest members of society from being denied the basic requirements for sustaining life—food, clothing, shelter, and medical care.

In carrying out these responsibilities, the department strives through rehabilitation, treatment, assistance, and service programs to help people become more self-sufficient and independent. It also works to keep families together. Local government and citizen groups are active and essential partners in meeting these basic human needs. In addition, the federal government plays an important role by providing part of the required funds.

Within the many populations served by the department, there are varying levels of need. The department focuses its efforts on those persons whose service needs are most critical, which means that some otherwise desirable services cannot be provided. One of the department's major obligations particularly at a time of diminishing resources, is to establish priorities among competing demands for assistance.

Prioritization of Services

Within the general framework of the DSHS mission statement, the department grouped major service types into three priority categories. These are shown below:

First Priority: Basic Life Support Services

Those services designed to ensure provision of essential food, shelter, clothing, medical care, and physical safety for persons unable to do so for themselves:

- Protective services for children, frail aging, and mentally disabled persons.
- Financial assistance for needy single-parent families, aged, blind or disabled persons, unemployable adults, refugees, and those in need of emergency assistance.
- Food stamps for low-income households.
- Residential care for persons requiring 24-hour care, including those in institutions, foster care, group care, nursing homes, or emergency shelters.
- Medical care (acute/emergent) for needy persons.
- Infectious disease control.

Second Priority: Services to Avoid or Reduce the Need for Basic Life Support Services

- Employment counseling and training for financially needy or for disabled persons seeking to become more self-sufficient.
- Maintenance of independent living for disabled persons.
- Crisis intervention for children and parents of families in conflict.
- Community outpatient services for the mentally ill and for persons requiring treatment for alcohol or drug abuse.
- Medical care (restorative, preventive) for financially needy single-parent families, aged, blind, and disabled.
- Family planning for adolescents and young adults.

- Nutritional programs for aging persons with limited incomes.
- Adoption of children with special needs.
- Support services, such as day treatment, day care, and chore services, for elderly and handicapped persons at risk of institutional placement.

Third Priority: Services Designed to Improve Access to the Service Delivery System

- Information and referral for elderly persons and for disabled individuals and their families.
- Advocacy/ombudsman for elderly and disabled persons.
- Volunteer programs for persons living in institutions.
- Pilot/demonstration projects.
- Outreach.

Application of Priorities to Decision Packages

Following completion of the departmental perspective, DSHS programs prepared decision packages on more than 200 options for expenditure reductions. Because of the volume of this material, there was no general distribution of the decision packages; however, copies are available in the DSHS regional offices. Summaries of the decision packages were distributed to interested groups.

In all of the deliberations, an effort was made to minimize the adverse impact of possible budget reductions on clients. Some federal cuts will occur in areas the department considers high priority. The department has chosen to avoid major service reductions in these high priority programs by generating savings in less critical programs and using the savings to offset at least partially the loss of federal funds for these essential services.

The department plans to add state funds to the following programs in order to offset loss of federal funds: Maternal and Child Health, Vocational

Rehabilitation, Family Planning, Refugee Assistance, and AFDC administrative staff training. Certain programs funded through Title XX have been maintained at current levels or reduced less than the full percentage amount, even though Title XX funds available to the department have been cut. Among these are chore services, child protective services, and foster care staff services. In addition, the department proposes to transfer funds to cover potential deficits in the state's mental hospitals.

Except where the federal government mandated changes, the department attempted to avoid eliminating or reducing services to persons least able to provide for themselves. In the Aid to Families with Dependent Children (AFDC) program, for example, the department has not proposed to reduce income assistance grant levels to offset the loss of federal funds; however, federal changes which the state is required to implement will reduce the number of persons eligible for benefits under the program. Also, the department has avoided making service reductions in state institutions or nursing homes. It has avoided making major changes in medical services available to needy persons. The list could go on. The essential point is that, except where the federal government has mandated changes the department has made a conscious effort in the review process to protect basic services for those persons most in need.

This approach is reflected in the list of planned changes that follows. The first is a technical adjustment to reflect lower than expected caseloads in the income and medical assistance programs. The next savings were realized by eliminating some regulatory activities and reducing administrative and support costs. These were followed by three categories of reductions aimed at increasing revenue, collecting fees for a variety of services, and extending the concept of client and parent participation in the cost of services. It was only after these savings options had been evaluated that the department considered reductions in services to clients.

Legislature's Role in Carrying Out DSHS Expenditure Reduction Plan

The department can implement some of the planned expenditure reductions with the authority it now has; however, many of these will require changes in the Washington Administrative Code. Implementation of other options is dependent upon the department's obtaining waivers from federal regulations. A number of the most important changes depend upon action by the Legislature. Legislative support for the specific proposals in the expenditure reduction plan is essential if the department is to achieve expected savings. If the necessary legislation is not passed to increase fees, facilitate additional collections, or transfer funds, the department will be forced to cut back further on direct services to clients.

Changes Required to Offset Reduced Federal Funds

Listed below are the categories of savings the department plans to realize during the 1981-83 biennium. Those changes that will have the least direct impact on clients are listed first.

		Savings (Dollars in Millions)
I.	Re-estimate expenditures for income assistance and medical assistance programs due to lower than expected caseloads.	27.8
II.	Reduce regulatory activities.	1.6
III.	Reduce administrative and support services.	1.1
IV.	Implement management improvements.	12.0
V.	Charge fees to recover full cost of certification, licensure, and inspection.	2.4
VI.	Require client/parent participation in cost of services.	4.4*
VII.	Use part of Low Income Home Energy Assistance Program funds to meet social service needs.	3.4
VIII.	Implement federally-mandated changes in Aid to Families with Dependent Children (AFDC) and Food Stamp programs.	9.9
IX.	Reduce services in various DSHS programs.	11.6

*Total revenue through participation is $5,400,000. Cost of collection will be approximately $1,000,000. Therefore, net saving is $4,400,000.

A list of the specific items included under each of the savings categories follows. Both the FTEs eliminated and the dollar savings are for the balance of the biennium. They also reflect the different implementation dates of the items.

I. Re-estimate Expenditures for Income Assistance and Medical Assistance Programs Due to Lower Than Expected Caseloads

Expenditures for the Aid to Families with Dependent Children (AFDC), General Assistance (GA), and Medical Assistance programs for the 1981-83 biennium have been re-estimated. The latest estimates indicate the department will spend $27.8 million (state funds) less than was appropriated for these programs. This is due to the fact that actual caseloads in the AFDC and GA programs have been lower than projected. The difference is also reflected in lower medical assistance costs associated with these clients. Given the uncertain state of the economy, the task of estimating assistance caseloads becomes much more difficult than it normally is. The savings figure represents the department's best estimate at this point in time.

II. Reduce Regulatory Activities

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
4-6	Nursing Home Affairs	Discontinue Medical Care Evaluation studies.	Federal waiver	1/1/82	—	$5,000
4-7	Nursing Home Affairs	Reduce number of physician visits to nursing homes for certification or recertification.	Federal waiver	1/1/82	—	$84,000
4-8	Nursing Home Affairs	Perform client assessments annually, or more frequently, based on established criteria.	Federal waiver	1/1/82	4	$30,000
4-9	Nursing Home Affairs	Reduce federal paperwork requirements in survey process.	WAC Federal waiver	3/1/82	1	$10,000
4-10	Nursing Home Affairs	Reduce staff time spent on on-site post-surveys of nursing homes.	WAC	3/1/82	3	$39,000

II. Reduce Regulatory Activities (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
4-11	Nursing Home Affairs	Reduce frequency of licensing and certification renewals.	State law Federal waiver	3/1/82	1	$14,000
6-31	Children's Services	License only enough foster homes to meet need.	State law	3/1/82	6	$183,000
6-32	Children's Services	Deregulate family day care homes caring for 0-3 children; register family day care homes with 4 or more children.	State law WAC	3/1/82	13	$465,000
6-33	Children's Services	Eliminate routine monitoring of private child care agencies and day care centers, family day care homes and foster family homes.	State law	7/1/82	6	$112,000
6-34	Children's Services	License and re-license facilities and homes on a 3-year cycle instead of 2.	State law	3/1/82	---	Savings next biennium.
7-21	Alcohol & Substance Abuse	Require biennial rather than annual county plans and contracts for formula funding.	WAC State law	7/1/83	---	Savings next biennium.

II. Reduce Regulatory Activities (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
11-21	Health Services	Eliminate most post-surveys of laboratories; inspect 40% of clinical laboratories biennially instead of annually; limit consultation services.	None	1/1/82	—	$108,000
11-45	Health Services	Reduce Title XVIII Medicare survey program for general, psychiatric, and alcoholism hospitals, and other Medicare-certified health care delivery services.	None	10/1/81	3	$153,000
11-49 11-50	Health Services	Eliminate Certificate of Need requirement for capital expenditure projects under $600,000 and for new health services under $250,000; eliminate review of all capital expenditure projects not for health services (e.g., administrative offices, computer systems).	State law WAC	12/1/81	1	$45,000
11-52	Health Services	Eliminate on-site construction review inspections.	WAC	10/1/81	10	$308,000

III. Reduce Administrative and Support Services

The department's Administrative and Support program includes such functions as budgeting, accounting, personnel administration, auditing, data processing, and other central administrative services. These functions are performed to support departmental programs and to maintain basic management accountability for the expenditure of funds and accomplishment of program objectives. As part of its expenditure reduction plan, the department will reduce expenditures in the Administrative and Support program (exclusive of revenue producing functions) in the same proportion that expenditures are reduced in the other programs of the department. This will save 33 FTEs and $1,050,000 during the 1981-83 biennium.

IV. Implement Management Improvements

Decision Package #	Program	Description	Law/Regulation Change Require	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
3-1	Mental Health	Bill Title XIX for first and last month of care in state hospitals.*	None	10/1/81	---	$131,250
10-2	Medical Assistance	Increase collections from third-party payors.	None	1/1/82	(26)	$7,500,000**
10-3	Medical Assistance	Strengthen utilization controls on hospital admissions.	WAC	1/1/82	---	$1,000,000
10-6	Medical Assistance	Contract for volume purchasing of laboratory tests and drugs prescribed for nursing home patients.	WAC Federal waiver	7/1/82	---	$500,000
13-3	Financial Recovery (Reimbursements)	Apply deductions from grants and food stamp issuances to clients with previous "client error" overpayments.	State law	10/1/81	(11)	$481,000**

*Anticipate a federal challenge and deferment of these claims, pending resolution of New York State suit.

**Savings contingent upon legislative approval of additional revenue collection positions.

IV. Implement Management Improvements (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
13-8	Support Enforcement	Make unemployment compensation benefit payments subject to deductions for child support obligations owed.	State law	7/1/82	—	$56,000
13-9	Support Enforcement	Collect child support obligations assigned to the state that are no longer dischargeable in a bankruptcy.	None	8/13/81	—	$13,000
13-10	Support Enforcement	Apply new federal law that permits states to garnish income tax refunds or overpayments to meet child support obligations.	None	1/1/82	(3)	$53,000*
13-12	Support Enforcement	Increase support enforcement collections by restoring staff to 77-79 biennium level.	None	10/1/81	(82)	$2,313,000*

V. Charge Fees to Recover Full Cost of Certification, Licensure, and Inspection

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
6-30	Children's Services	Charge licensing fees for child care facilities.	WAC	1/1/82		$338,000
7-19	Alcohol & Substance Abuse	Charge fees for certification of alcoholism and drug abuse facilities.	WAC	1/1/82		$144,000

*Savings contingent upon legislative approval of additional revenue collection positions.

V. Charge Fees to Recover Full Cost of Certification, Licensure, and Inspection (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
11-4	Health Services	Charge fees for review of health and residential care facilities construction projects.	None	4/1/82		$296,000
11-5	Health Services	Charge fees for review of Certificate of Need applications.	None	4/1/82		$194,000
11-6	Health Services	Increase license fees for boarding homes; charge certification fee for child care agencies and shelters for victims of domestic violence	State law	4/1/82		$103,000
11-7	Health Services	Increase license and certification fees for medical facilities.	State law	4/1/82		$233,000
11-8	Health Services	Increase fees for copies of vital records.	State law	4/1/82		$145,000
11-9	Health Services	Increase fees for waterworks operators' certification.	State law WAC	4/1/82		$15,000
11-13	Health Services	Charge fees for inspection of ambulance and first aid services/vehicles.	None	1/1/82		$43,000
11-15	Health Services	Charge fees for registration of X-ray devices.	WAC	4/1/82		$300,000

V. Charge Fees to Recover Full Cost of Certification, Licensure, and Inspection (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
11-16	Health Services	Charge fees for licenses for possession of radioactive materials.	WAC	4/1/82		$413,000
11-17	Health Services	Charge fees for inspection of commercial shellfish processing plants and for laboratory analyses of water and shellfish samples.	State law WAC	4/1/82		$25,000
11-18	Health Services	Charge fees for plan review of new public and semi-public swimming pool projects.	WAC	4/1/82		$11,000
11-19	Healtn Services	Charge fees for plan reviews of proposed on-site sewage projects.	WAC	4/1/82		$25,000
11-23	Health Services	Charge fees to hospitals and nursing homes for bacterialogical sterilization monitoring.	None	4/1/82		$6,000
11-59	Health Services	Increase fees for licensing and inspection of transient accommodations.	State law	1/1/82		$140,000
12-10	Vocational Rehabilitation	Transfer responsibility for payment of cost related to certification/accreditation to rehabilitation facilities.	WAC	12/1/81		$30,000

VI. Require Client/Parent Participation in Cost of Services*

As a general rule, fees will be collected giving consideration to ability to pay, except where the amount of the fee is so small as to make such adjustment impractical.

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
1-4	Juvenile Rehabilitation	Require clients' parents to pay for cost of care.	State law	7/1/82		$940,000
2-2	Developmental Disabilities	Require parents of minor children and adult clients (non-residential) to participate in cost of care or services.	State law	7/1/82		$2,212,000
3-2	Mental Health	Require sexual psychopaths or their insurers to pay for treatment in state hospitals.	State law WAC	7/1/82		$350,000
7-20	Alcohol & Substance Abuse	Require vendors receiving state funds for alcoholism and drug abuse treatment services to charge a standard $2 fee per visit.	State law WAC	3/1/82		$158,000
10-1	Medical Assistance	Require co-payment of $5 for each hospital emergency room and out-patient visit.	WAC Federal waiver	1/1/82		$900,000
11-22	Health Services	Charge fees for laboratory chromosome studies.	None	4/1/82		$100,000
12-7	Vocational Rehabilitation	Increase client financial participation.	WAC	3/1/82		$587,000

*Total savings will be offset by $1,000,000 in additional collection cost. Requires 20 FTEs.

VI. Require Client/Parent Participation in Cost of Services (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
13-7	Support Enforcement	Increase fees for non-assistance support collection services.	WAC	1/1/82		$140,000

VII. Use Part of Low Income Home Energy Assistance Program (LIHEAP) Funds to Meet Social Service Needs

The Low Income Energy Assistance Program block grant gives the flexibility and authority to the states to transfer up to 10% of the allotment to one or any combination of other block grants. These include the Community Services; Social Services; Preventive Health Services; Alcohol, Drug, and Mental Health Services; Primary Care; and Maternal and Child Health Services block grants.

The Omnibus Reconciliation Act authorizes funding for LIHEAP at the same level as FFY 1981. If the appropriation should be at that level, Washington State's share would be $70,000,000 over the next two federal fiscal years (FFY). However, the appropriation may be considerably lower. For purposes of this analysis, we have assumed a total appropriation of $52,500,000 for FFY 1981 and FFY 1982. Ten percent of that amount, or $5,250,000, would be available for cross-funding to other block grants during the 1981-83 biennium.

The Planning and Community Affairs Agency (PCAA) is designated as the state agency responsible for administering the LIHEAP grant. DSHS will continue to receive a portion of these funds through PCAA for its Low Income Home Energy Assistance Program. In addition, DSHS will receive a share of the funding eligible to cross over and support other programs. The department will apply its share of the cross-over funds, estimated at $3,400,000, to other block grant programs.

VIII. Implement Federally-Mandated Changes in AFDC and Food Stamp Programs

Included in the federal Omnibus Reconciliation Act are a number of important changes in the AFDC program. The general effect is a tightening up of eligibility for benefits. This will result in a reduction in the AFDC caseload. These federally-mandated changes are expected to reduce AFDC expenditures by $14,800,000 (state funds) during the 1981-83 biennium. Also, elimination of Public Sector Employment jobs from the Comprehensive Employment and Training Act (CETA) program is expected to increase the AFDC caseload, resulting in an added state cost of $4,900,000.

Reductions are also expected in the Food Stamp program which will lower the income available to recipients but will not have a direct impact on the state budget.

The specific changes in the AFDC program follow.

VIII. Implement Federally-Mandated Changes in AFDC and Food Stamp Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
5-1	Income Assistance	Change level and duration of earned income disregards.	WAC	10/1/81	29	$2,675,000
5-2	Income Assistance	Limit allowable income and resources to $1,000 (excluding owner-occupied home and one automobile).	WAC State law	10/1/81	8	$1,990,000
5-3	Income Assistance	Limit allowable gross income to 150% of grant standard.	WAC	10/1/81	47	$3,192,000
5-4	Income Assistance	Treat lump sum payments as income.	WAC	10/1/81	3	$258,000
5-5	Income Assistance	Count Earned Income Tax Credit as monthly income.	WAC	10/1/81	(6)**	$1,106,000
5-6	Income Assistance	Deny eligibility to strikers.	WAC	10/1/81	—	—
5-7	Income Assistance	Restrict eligibility of pregnant women with no other children until third trimester.	WAC	10/1/81	7	$2,576,000
5-8	Income Assistance	Require monthly reporting by clients.	Federal waiver	Pending waiver	Negligible	Negligible
5-9	Income Assistance	Allows department to collect overpayments on fraudulent, no-fault, or departmental errors.	* WAC	10/1/81	(11)**	$3,000,000***

VIII. Implement Federally-Mandated Changes in AFDC and Food Stamp Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
5-11	Income Assistance	Limits exemptions from work requirement for children under 16.	None	10/1/81	Negligible	Negligible
5-14	Income Assistance	Require deeming of sponsor's income and resources for 3 years following alien's entry.	WAC	10/1/81	Negligible	Negligible
5-15	Income Assistance	Require deeming of stepparent and child's income in eligibility determinations.	WAC	10/1/81	Negligible	Negligible

IX. Reduce Services in Various DSHS Programs

Listed below are a number of planned service reductions, grouped by general categories:

A. Adoption services that can be eliminated or handled by private agencies:

6-1	Children's Services	Terminate adoption support for children at age 18 instead of 21.	WAC	1/1/82	—	$310,000
6-2	Children's Services	Transfer to private agencies for adoptive planning and placement healthy Caucasian infants 0-2 years of age in DSHS custody.	None	1/1/82	1	$22,000

*State law change may be required.
**Additional staff required to achieve savings.
***Estimate dependent on legal interpretation, as yet unresolved.

IX. Reduce Services in Various DSHS Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Elliminated	Savings 1981-83 Biennium
6-3	Children's Services	Limit home studies to families which want to adopt most hard-to-place children.	None	1/1/82	4	$83,000
6-4	Children's Services	Eliminate annual face-to-face update and write-up for all families on adoption registry for whom there has been no significant change.	None	11/1/81	2	$32,000
6-5	Children's Services	Discontinue providing "next friend reports" for non-DSHS clients.	None	12/1/81	1	$17,000
6-6	Children's Services	Discontinue adoptive placement of healthy children 2-5 years old who are under DSHS supervision; refer to voluntary child-placing agencies.	None	1/1/82	1	$13,000
B. Reduce technical assistance, training and educational activities:						
7-4	Alcohol & Substance Abuse	Reduce alcoholism education and training activities.	WAC	10/1/81	—	$194,000

IX. Reduce Services in Various DSHS Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
7-11	Alcohol & Substance Abuse	Eliminate state-sponsored training of private and county organizations under contract with DSHS to provide drug abuse treatment services.	None	10/1/81	—	$127,000
7-13	Alcohol & Substance Abuse	Eliminate state support for local drug abuse prevention activities.	None	10/1/81 (partial) 1/1/82 (full)	—	$377,000
11-28	Health Services	Reduce technical assistance and training to local health departments, hospitals, and nursing homes for tuberculosis control and management.	None	10/1/81	2	$60,000
12-8	Vocational Rehabilitation	Discontinue providing technical assistance to sheltered workshops.	None	10/1/81	—	$300,000
C. Reduce information and referral services.						
2-1	Developmental Disabilities	Eliminate information and referral services.	WAC	10/1/81 (regional) 1/1/82 (county)	4	$112,000
5-20	Income Assistance	Eliminate Food Stamp Outreach Program.	None	10/1/81	—	$100,000

IX. Reduce Services in Various DSHS Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
6-16 (a,b,c)	Children's Services	Reduce to a minimal level information referral services in family planning, EPSDT and non-EPSDT health support programs.	None	11/1/81	71	$1,208,000
8-9	Aging and Adult Services	Reduce Senior Citizens' Services Act (SCSA) expenditures to eliminate discretionary state funds. (Step 1)	None	1/1/82 (partial) 7/1/82 (full)		$348,000
12-3	Vocational Rehabilitation	Eliminate voluntary state match for Client Assistance Project.	None	10/1/81		$16,000
D. Eliminate state-supported alcoholism and drug abuse services for inmates of state prisons and local jails:						
7-1	Alcohol & Substance Abuse	Discontinue providing alcoholism services for prison inmates.	WAC	10/1/81		$384,000
7-12	Alcohol & Substance Abuse	Eliminate drug abuse counseling services in prisons, diversion programs, and local jails.	None	1/1/82		$343,000
E. Curtail planning, research and demonstration activities:						
11-41 11-44	Health Services	Eliminate contract funds provided to Health Systems Agencies.	None	10/1/81		$100,000

IX. Reduce Services In Various DSHS Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
11-65	Health Services	Eliminate planned study of multiple sclerosis.	Legislative relief from budget proviso	4/1/82		$40,000
F. Equalize day care eligibility and defer program expansion:						
6-20	Children's Services	Do not add new seasonal day care services planned in 81-83 budget.	None	7/1/81		$580,000
6-21	Children's Services	Place eligibility for day care on reservations at same income level as rest of state.	WAC	1/1/82		$57,000
G. Curtail plans to expand or enhance certain services:						
3-11	Mental Health	Reduce from 35 to 25 the number of new specialized foster home beds for seriously disturbed children.	None	10/1/81		$122,000
4-1	Nursing Home Affairs	Eliminate incremental second-year allotment to enhance patient care cost center in nursing homes.	State law WAC	7/1/82		$1,000,000
12-1	Vocational Rehabilitation	Eliminate innovation and expansion grants.	None	10/1/81		$793,000

IX. Reduce Services in Various DSHS Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
12-2	Vocational Rehabilitation	Do not expand Migrant and Seasonal Farm Workers Project.	None	10/1/81	2	$56,000
H. Miscellaneous service reductions:						
2-7	Developmental Disabilities	Reduce need for weekend staff coverage at School for the Blind by encouraging home visits by students.	None	11/1/81	6	$150,000
8-1 8-4 8-7	Aging and Adult Services	Limit staff time spent on relocation services discontinue CSO social service staff participation in annual Title XIX facility utilization reviews.	WAC Federal waiver	10/15/81 (partial) 7/1/82 (full)	11	$216,000
4-2	Nursing Home Affairs	Reduce by one-half amount spent for specialty consultant services in nursing homes.	WAC Federal waiver	7/1/82		$450,000
7-2	Alcohol & Substance Abuse	Eliminate special alcoholism services to migrants (federal grant expires).	WAC	10/1/81		$255,000

IX. Reduce Services in Various DSHS Programs (continued)

Decision Package #	Program	Description	Law/Regulation Change Required	Implementation Date	FTEs Eliminated	Savings 1981-83 Biennium
7-3	Alcohol & Substance Abuse	Reduce administrative cost for special alcoholism services for Native Americans. (Step 1)	WAC	10/1/81		$87,000
11-27	Health Services	Reduce to minimal level genetic diagnosis and counseling.	None	10/1/81		$120,000
11-34	Health Services	Reduce level of effort in venereal disease control program.	None	10/1/81 (partial) 1/1/82 (full)	5	$171,000
6-27	Children's Services	Eliminate follow-up counseling to reinforce crisis intervention services.	WAC	1/1/82	13	$276,000
12-5	Vocational Rehabilitation	Reduce frequency and/or duration of such services as placement, training, transportation, and restoration.	WAC	11/1/81	—	$2,933,000
7-15	Alcohol & Substance Abuse	Eliminate day treatment services for drug abuse clients.	None	1/1/82	—	$53,000
7-23	Alcohol & Substance Abuse	Reduce administrative staff. (Step 1)	None	10/1/81	4	$133,000

Mr. RANGEL. What reductions have been made by State government?

Mr. GIBBS. In the last special session of the legislature held in the fall we dealt with two issues; first budget reductions due to the loss of the Federal funds, and second, reductions made necessary by the shortfall in State funds. The Governor proposed to the legislature that although the shortfall in the State funds was almost 10 percent, that in social and health services additional cuts of only about 3 percent were warranted, so we did make some cuts. We made them in lower priority services within our department. They affect juvenile rehabilitation, alcohol services, some modest cuts in mental health, and they fall in a variety of areas.

Mr. RANGEL. You can distinguish between the impact of the Federal cuts and those that were passed by the State?

Mr. GIBBS. Yes, because there were separate planning processes.

Mr. RANGEL. Different programs?

Mr. GIBBS. They may affect the same programs.

Mr. RANGEL. It would be difficult for the beneficiary to know whether it was the result of State or Federal?

Mr. GIBBS. That is exactly right. The beneficiary could not know.

Mr. RANGEL. It is your testimony that you know of nobody that is falling out of the safety net.

Mr. GIBBS. I do not believe that I said that.

I think, and I said, there are real cuts in services. I can tell you that in the AFDC program, the State has had a little more than 50,000 cases. As a result of implementing the mandatory changes in the AFDC program, we estimate about 3,000 people who are currently on AFDC will lose their benefits entirely. That is 3,000 cases, approximately 8,000 or 9,000 people.

Mr. RANGEL. They would lose their medical benefits as well for the children?

Mr. GIBBS. If they are not AFDC-eligible. There are some circumstances under which the medical assistance can continue, but by and large, many of those people will not have the benefits.

Mr. RANGEL. From your testimony you have established you got a headstart on the cuts. You have organized your office, and you set up programs.

You had public hearings, and I get the clear impression that you are saying in establishing those priorities that no essential services were cut, and that you are able to get through?

Mr. GIBBS. I would distinguish between the AFDC program where we do not have discretion at the State level, and other programs. I have submitted a document which you might want to look at which details precisely where all of the cuts come in our Federal program.

Mr. RANGEL. We are here in the field to try to find out what people like you, who are on the firing line and who have the ultimate responsibility for providing services think about the budget cuts.

Now, the President of the United States has said that taking care of the sick, the poor, and the disabled should basically be a local initiative, and further if there are any shortfalls in providing those services, that we should look to the churches, the charitable organizations, and the private sector to make up for it.

You are here as a witness to represent a State government, and I am trying to find out whether or not in your opinion, after the Federal cuts the medical needs of those who are needy are being met, whether the poor are receiving the assistance they need, whether your senior citizen centers have been affected, and whether the day care centers are being affected. We have been around the country asking these questions.

We would like to hear good news, but we have not.

Mr. Gibbs. Congressman, let me give you an example of what we tried to do to minimize those kinds of impacts.

Although the Federal funding for maternal and child health programs is being reduced, we have not reduced in the department the funds for that program. We have shifted State funds over there and tried to establish priorities that said the first priority for State services is basic life support services, food, clothing, and shelter and medical care.

Mr. Rangel. The President is going to be asking for additional cuts. Are you prepared to handle that?

Mr. Gibbs. I would be concerned about the magnitude of the cuts and where the cuts would come.

In a real sense, the first round of what we have gone through is the easiest round, because we have done as many things as possible to avoid the deep cuts in direct services, and we are out of those kinds of options. There is only so much efficiency you can produce and so many fees you can generate as revenue, and so if you talk about further reductions, you are talking about having to reduce direct services.

I would not be in favor of that. I am more concerned at the moment, for example, with proposals in the Department of Health and Human Services with respect to refugee assistance. This is a program that is completely federally funded. It has historically provided social services and income assistance to the refugee population, and in this State we have the third highest refugee population.

It was proposed for adoption on February 1, but has now been postponed, that the income assistance portion of that program be changed from a 3-year program to one that is only 18 months in duration. That would have a devastating impact in this State, and we would almost immediately terminate 6,000 refugees from public assistance.

We are talking about refugees that come from Southeast Asia who have language barriers, and who need public assistance and social services for an adequate length of time in order to make the cultural change to live in this country.

Mr. Rangel. Mr. Gradison.

Mr. Gradison. Thank you, Mr. Chairman.

Mr. Gibbs, you said in your statement that the loss of Federal funds during the biennium in your department was $70 million?

Mr. Gibbs. Estimated loss.

Mr. Gradison. What is your loss of State funds over the same period of time?

Mr. Gibbs. We have further reduced in State funds about $49 million in social and health services in the special session of the legislature; with the Federal matching money that comes with some of those, the total program, reduction is $63 million.

Mr. GRADISON. $63 million is a result of decision strictly made, or $70 million is Federal, about half and half?

Mr. GIBBS. Yes.

Mr. GRADISON. Before the Congress completed its first session, and based upon information which we received in this committee during our hearings, I introduced a bill which would make it possible for the States to receive Federal matching under the AFDC program, if they make private health insurance available to individuals when their income rises to the points when they are no longer eligible to get the AFDC and medicaid which generally goes with it.

I realize this is a new idea and one that we have not had hearings on, but any thoughts on that general proposition?

Mr. GIBBS. Yes, I think States do have an option now, to respond briefly to your question. States do have the option of providing assistance to the needy population, that is, the population above the AFDC enrollment standard.

I assume you are talking about a proposal that would give the States the option of providing private insurance but having the State pay the insurance premiums with some assistance from the Federal Government.

Mr. GRADISON. Correct. The concept is that there could be a sliding scale determined by the State, depending upon the circumstances of the family, which might start off with 100 percent, say if somebody went on a minimum wage job which required a period of time before the health insurance became available, and the percentage might be adjusted downwards as the earnings increased or the availability came into play.

Mr. GIBBS. It is an interesting idea. I never heard it proposed before. It would be interesting to look at the economics of that as opposed to the medicaid program.

Mr. RANGEL. Mr. Hance.

Mr. HANCE. Mr. Gibbs, I have a couple of quick questions.

Do you have any evidence or any knowledge on how many AFDC mothers that were working part time have, because of the change in the law, become ineligible for AFDC payments and medicaid, and how many quit their part-time job so they could still receive AFDC benefits?

Mr. GIBBS. We do not have any statistical evidence yet. All we have are reports, episodic reports of that.

The true impacts of some of the changes that are now in the AFDC program, such as what will happen when the 30⅓ earnings disregard is eliminated after 4 months, we do not know yet.

I am quite concerned that we are now building in a potential disincentive for people to work, and it is important for States, I think, to keep records on the experience in this regard and share that with Congress, so that if a legislative change is needed, we have an opportunity to do that.

Mr. HANCE. What is the total budget for your agency?

Mr. GIBBS. About $2½ billion for the biennium.

Mr. HANCE. Do you know what it was in 1977?

Mr. GIBBS. I was not here then.

Mr. **Hance**. 1981?

Mr. **Gibbs**. The biennial budget for the last biennium was somewhere slightly above $2 billion.

Another way of expressing it is if the biennial budget for this year, without any changes in programs or cuts at the State level, would have been over about $3 billion.

Mr. **Hance**. The increase from 1981 to 1982 would be 20 percent?

Mr. **Gibbs**. Not quite. I will be happy to supply this for the record.

Mr. **Hance**. Is that about the percentages of increase in the average year over the last several years or since you have been secretary?

Mr. **Gibbs**. I have only been secretary since February 1981.

Mr. **Hance**. If you could give me the last 5 years and submit it for the record, I will appreciate it.

Mr. **Gibbs**. I will be happy to do that.

[See letter at p. 389.]

Mr. **Rangel**. Mr. Anthony.

Mr. **Anthony**. Mr. Gibbs, I wonder if you could enlighten me a little bit on what type of assistance is available to both one-family and two-family, or one-parent and two-parent families in the State, since you are running extremely high unemployment in the State.

Mr. **Gibbs**. Income assistance?

Mr. **Anthony**. Yes.

Mr. **Gibbs**. The current AFDC program is limited to one-parent families, or two-parent families where one of the parents is disabled and cannot work.

The State used to provide a program for two-parent families where children were being deprived because of the unemployment of one of the parents. That was changed in March of this year.

Mr. **Anthony**. What was the rationale behind that?

Mr. **Gibbs**. The legislature acted earlier this year in response to (1) growing caseloads; (2) an evaluation that the programs had been changed in the State of Oregon, and that many of these two-parent families could in fact find work and a response in trying to keep down State expenditures.

The programs changed in March. We have since been following what has happened to those two-parent families, and have produced recently, in draft form at least, the first study of what has become of those families. We have found slightly above 20 percent of those former two-parent families have found some other form of assistance.

Many of them have AFDC, for example, and many of them have found other jobs, and some have moved away, and we cannot locate them. The data that we have so far is incomplete, and we hope to continue the study.

Mr. **Anthony**. I guess what you are telling is if you track it and the case studies show you there was some unintended discrimination between a two-parent family versus a one-parent family, would you be willing to suggest legislative or corrective language?

Mr. **Gibbs**. Of course, this is a State discretion.

Mr. **Anthony**. I understand.

Mr. **Gibbs**. The legislature did act to mitigate that program cut. What it did was change the emergency assistance program, so that we could make two-parent families eligible for emergency assistance for 2 months instead of 1 month.

At the moment the Federal Government shares in that program only to the extent of 1 month, so at State expense we have provided the 2-month benefits.

That 2-month figure is important because the average length of stay on that two-parent program was 4 months, so the legislature did act already to mitigate the impact of cutting those services.

Mr. ANTHONY. If I understand your testimony correctly, you say in order to offset the loss of the $70 million, plus other State funds, that you felt would probably be cut, also in order to meet your fiscal problems that you have within the State system, income is down, and you have your own budgetary problems, you did then introduce for the first time user fees for a lot of those services?

Mr. GIBBS. We are proposing introducing them. I need legislative authorization from the State legislature. We are in session now, and there is a bill being considered by the legislature to do that.

Mr. ANTHONY. There are no fees now that are charged?

Mr. GIBBS. In some programs we have always charged fees.

Mr. ANTHONY. Have there been additional fees?

Mr. GIBBS. We are proposing additional fees.

Mr. ANTHONY. Is this the one that would raise the $50 million?

Mr. GIBBS. The sum total of all of the actions that we have taken with respect to fees, increasing support enforcement collections, management improvements, et cetera, will save $50 million.

The fees themselves will raise, we are estimating, somewhere around $8 million, $10 million.

Mr. ANTHONY. If there are further cuts coming, in 1982 for fiscal 1983, and 1983 for fiscal 1984, and knowing that you do not have a State income tax, you use other sources or means to raise your revenues, what is the likelihood that either the State government or the local county, city government would introduce additional levies of taxes of one kind or another to make up for the loss from the Federal Government, so that services would not be reduced in the future?

What is the likelihood of that happening?

Mr. GIBBS. It is probably a better question to ask some of the elected officials.

In the last session of the legislature when faced with a severe shortfall in funds, the legislature acted to raise taxes. We increased the sales tax just a little over a month ago, and much of that was done so that there would not be further reductions in service. We thought we had reached a point where we ought not to be accepting further reductions, that we had cut far enough, both in the last session of the legislature as a result of the Federal reductions and a result of the shortfall in State funds. So the State has shown some willingness to raise taxes to keep essential services.

Mr. ANTHONY. What is the amount of the sales tax?

Mr. GIBBS. 6.5 percent.

Mr. ANTHONY. Mr. Chairman, I must admit that I have numerous other questions. I can see Mr. Gibbs is a knowledgeable witness, but I know we have some time constraints.

Given the fact you are not an elected official, and maybe that question about whether or not taxes should be raised should be better addressed to somebody else, which brings me to a fairly important point.

You are, I assume, in an appointed position.

Mr. GIBBS. Yes.

Mr. ANTHONY. That places you in some type of fiduciary relationship with the public you serve. You are much more knowledgeable about the inner workings than any of the members sitting on this panel.

I have always felt people in your capacity may even have more of a duty to speak out publicly and make recommendations to those who have to then belly up to the bar and make them sacrosanct.

Mr. RANGEL. We do appreciate hearing the feelings of the audience, but this is an official congressional hearing, and we are in a Federal building. I would ask you please as guests of the committee to try not to applaud or to display your feeling one way or the other in response to a statement made by a member or by a witness.

Mr. ANTHONY. I think, Mr. Gibbs, you have already demonstrated your astuteness to what was happening.

You put your plan together and tried to do it in the best manner in which you could, and I would like to publicly applaud you.

I wish the people in my State had done as credible a job as you have to try to put a plan together to offset the cuts. We are suffering a little bit more than the people are out here, and my last question, are you willing, and would you be willing to make those recommendations not only to the State legislature, but to this panel in the future?

Mr. GIBBS. Yes; I always welcome opportunities to express my views. I do that routinely with the Governor, and I routinely appear before the State legislature also to testify in support of the decisions we are making and I would welcome further opportunities to testify.

Mr. ANTHONY. Thank you.

Mr. RANGEL. Mr. Pritchard.

Mr. PRITCHARD. No questions, Mr. Chairman.

Mr. RANGEL. Mr. Lowry.

Mr. LOWRY. One question, Mr. Chairman.

How long has the proposed reduction from 36 to 18 months on refugee assistance been planned? Did you say since February?

Mr. GIBBS. It was proposed to go into effect on February 1, but I was informed yesterday that HHS has postponed that date, so that they are not going to put it into effect on February 1.

Mr. LOWRY. Approximately 6,000 people would lose benefits?

Mr. GIBBS. Yes.

Mr. LOWRY. Where do those 6,000 people go if that cut is imposed in the future?

Mr. GIBBS. There are no State programs that would be able to pick those refugees up. The general assistance program that we run in this State is for disabled single individuals, not for unemployed single individuals, and we no longer operate an AFDC program for intact families, so that they would not be able to turn to the State for assistance.

They would then have to rely on volunteer organizations, charitable organizations, and I think that imposes a burden that is too large for any of those to take.

Mr. LOWRY. Those organizations have been increasing their activity in the last few months?

Mr. GIBBS. They have indeed.

Mr. LOWRY. You have been in touch with them.

How much have they increased their activity in picking up this load?

Mr. GIBBS. I couldn't detail all of the volunteer efforts that have been organized in the State.

There was an article in the Seattle Times about plans by the State dental association to provide dental services on a nonpay or copay basis to low income people.

I think they estimated a little more than a third of the dentists have volunteered to participate in that program.

There are volunteer efforts being organized by church groups which center around many of the services where in fact volunteers can provide services, like chore services to the elderly.

Mr. LOWRY. We have the third highest refugee immigration as a State in the Nation. In the last few months has that same trend been continuing? Is the population continuing to grow?

Mr. GIBBS. The population has continued to grow.

We get new migration, and migration from other States coming to Washington.

During the last year we were getting 400 refugees per month in this State, and we believe that this is going to level off this year to about 300 a month, but it is a growing population, and there are now 31,000 refugees in the State.

Mr. LOWRY. Thank you, Mr. Chairman.

Mr. RANGEL. Thank you very much.

Mr. GIBBS. Thank you very much.

Commissioner Norward Brooks, Department of Employment Security.

STATEMENT OF NORWARD J. BROOKS, COMMISSIONER, DEPARTMENT OF EMPLOYMENT SECURITY, STATE OF WASHINGTON

Mr. BROOKS. We have written testimony, but I would like to summarize the testimony.

Mr. RANGEL. Without objection, your full statement will appear in the record.

Mr. BROOKS. The State of Washington currently has an unemployment rate of 10.1 percent, and that represents approximately 192,400 people that are unemployed.

At a time of this high unemployment, we find that the services directed to assist the unemployed have been severely reduced.

We administer within the Department of Employment Security four programs, and one is employment services which is the job finding employment, the exchange employment security; and the second is the unemployment insurance program which has the responsibility of paying benefits to those that are unemployed through no fault of their own and the third is the training program which provides training to job opportunities to welfare recipients on AFDC, and the fourth would deal briefly with the CETA programs.

The employment services has had the greatest impact in terms of Federal reduction.

The first continuing resolution that was passed reduced the services within the employment services area by 17 percent which caused the State, which had at that time 39 offices that provide services to claimants and individuals seeking work, to be reduced from 39 to 31 full-service offices.

The second continuing resolution resulted in approximately a 30-percent cut in the employment services budget.

The Congress actually approved a 12-percent cut in grants which includes both the unemployment insurance program and the employment services program.

It was at the discretion of the Department of Labor to allocate the cuts between the two programs, and the allocation turned out to be a 20/80 split in which the employment services received the 80-percent cut.

Since the magnitude of the employment services program was about half that dollarwise as the unemployment insurance program, that resulted in a much larger cut in the employment services to absorb the unemployment insurance program equivalent cut, so the total amount within employment services as a result of the second continuing resolution was approximately a 30-percent cut.

That was in the remaining resource that had already been reduced 17 percent.

In addition to that, since the continuing resolution was retroactive to October 1, and we received notification of the cuts in the latter part of December, we had overexpended by approximately one-quarter and we had to reduce the budget additionally to allow for that.

The State has a procedure that it must follow in the termination of people. We have been in the process of riffing, reducing our workforce with employment security by 417 people.

The 417-people reduction affects approximately 900 people which would have options in this particular RIF activity. Because it takes approximately 60 days for the RIF process to be completed, and because of the severance pay that those that would be unemployed must receive, we had to allow an additional 7.5-percent cut to compensate for the termination and severance pay procedure, so the net result on the employment services was approximately a 60-percent cut.

As a result of our cut, the employment services will be discontinued in an additional 14 of the 31 remaining offices, leaving 71 offices that will have some amount of services to provide job finding capability.

The unemployment insurance program, as a result of the cuts, was reduced in dollar amount 2 percent. Even though the dollar amount of the insurance program is not affected, since a large part of the integrity of the unemployment insurance program is determined by the employment services by its effort to provide a job test to unemployed claimants, we find that without the job servicing, that individuals will probably draw unemployment insurance compensation for longer periods of time, and based on a Stanford study, that will probably be an additional week, and given that the average unemployment insurance benefits could be $150 a week, then we see that there will be an additional drain on the unemployment insurance funds by the amount of people who happen to be unemployed claimants who will draw benefits for an extended period of time.

Because of the RIF which involves approximately 900 people, there will be people that will be affected within the unemployment insurance programs by people that are leaving employment services, because the two programs work as part of the agency so people coming from the employment services side will now have to administer the unemployment insurance programs and those individuals will not necessarily have a knowledge of the unemployment insurance law.

As a result of that, there will be inefficiencies, administrative errors, and that will probably result in additional dollar drains on the unemployment insurance trust fund.

The net result is the employment security system funded out of funds, they have been effectively withheld at the Federal level, and employers are in fact paying the tax for a service that they are not receiving.

Second, because of the impact on the trust fund, a fund in which the employees of the State must pay a tax in order to retain the integrity of that trust fund, the employees could be penalized by having to pay additional State taxes in order to prevent the trust fund from being depleted or if depleted, to pay the interest, and the amount of the loan that the trust fund would be obligated to.

The WIN program in this State is operated very successfully, and last year was the No. 1 program in the Nation.

Over 9,000 participants were placed in jobs.

The program cost for last year was approximately $13,000. Savings in welfare grant dollars as a result of placement of welfare recipients in jobs amounted to approximately $40 million, so it is a program that generated approximately 3-plus dollars in welfare savings for each dollar spent.

That program was cut approximately 34 percent, and as a result of the cuts in that program, the agency will probably be placing less than 6,000 people in jobs that are now currently existing.

The public service employment program resulted in 6,500 jobs being eliminated in the State of Washington. This is not only jobs within the employment security agency but jobs within the State of Washington that compete with local governments.

Many of those agencies provided job assistance services, and because of the loss of the CETA participants, there are no resources available to help people find jobs.

The training was reduced and as a result of that reduction, there are fewer resources available to train those individuals that are currently unemployed.

We think that in summary, that with the unemployment rate that we have, the number of people, almost 200,000 people unemployed, of which approximately one-half are drawing benefits and the other half have no assistance, that it is ill-timed to cut the agency that in times of unemployment should be providing those services to the unemployed community.

[The prepared statement follows:]

STATEMENT OF NORWARD J. BROOKS

AT A TIME WHEN WASHINGTON STATE'S CURRENT UNEMPLOYMENT RATE OF 10.1% REPRESENTS THE LARGEST NUMBER OF UNEMPLOYED PEOPLE (192,400) SINCE THE DEPRESSION, THE FEDERAL GOVERNMENT IS REDUCING THOSE SERVICES WHICH ARE USUALLY INCREASED TO OFFSET THE IMPACT OF AN ECONOMIC SLUMP.

WHEN ALL THE FIGURES ARE TABULATED, THE TOTAL UNEMPLOYMENT RATE FOR 1981 WILL HAVE BEEN 9.1 PERCENT, OR A RECORD NUMBER OF 175,000 WORKERS. THIS TRANSLATES TO A LOSS TO THE STATE'S ECONOMY OF APPROXIMATELY $600 MILLION IN WAGES THAT WILL NOT BE PUMPED BACK INTO THE ECONOMY.

PROJECTIONS FOR THE COMING YEAR INDICATE THERE WILL BE AN EVEN HIGHER ANNUAL UNEMPLOYMENT RATE OF 10.9 PERCENT, OR 210,000 JOBLESS WORKERS, WHICH WILL REPRESENT AN ADDITIONAL LOSS TO THE STATE'S ECONOMY OF OVER $719 MILLION.

INSTEAD OF EASING THE ECONOMIC SITUATION, GOVERNMENT IS EXACERBATING IT BY LAYING OFF WORKERS. IN MARCH, 1981, THE EMPLOYMENT SECURITY DEPARTMENT HAD A TOTAL STAFF OF 3,538. BY FEBRUARY 1, 1982 THAT NUMBER WILL HAVE BEEN REDUCED TO 2,244, OR A REDUCTION OF 1,294 STAFF, OF WHICH 250 WERE CETA PUBLIC SERVICE EMPLOYEES. THE LAY-OFFS IN THE EMPLOYMENT SECURITY DEPARTMENT ALONE, REPRESENT A WAGE LOSS TO THE STATE'S ECONOMY OF OVER $16 MILLION.

IN DECEMBER, THE SECOND CONGRESSIONAL RESOLUTION REDUCED THE COMBINED ES GRANTS AND UI GRANTS PROGRAM BY 12 PERCENT -- OR $261 MILLION -- OVER THE OCTOBER 1, 1981 ALLOCATED LEVEL. THE OCTOBER 1, 1981 LEVEL HAD ALREADY PROVIDED A 17 PERCENT REDUCTION IN ES GRANTS AND A 3 PERCENT REDUCTION IN UI ACTIVITY.

EMPLOYMENT SERVICES

THE GREATEST AND MOST DISASTEROUS IMPACT OF THESE REDUCTIONS IN IN EMPLOYMENT SERVICES WHERE SERVICES AFTER FEBRUARY 1 WILL BE AVAILABLE AT LESS THAN HALF THE LEVEL THEY WERE IN PREVIOUS YEARS. THE REASON FOR THE MAGNITUDE OF THIS REDUCTION IS TWO-FOLD. FIRST, THE DECEMBER REDUCTION WAS MADE RETROACTIVE TO OCTOBER 1, 1981. THIS MEANS THAT DURING THE REMAINING EIGHT MONTHS OF THIS FISCAL YEAR WE HAVE TO PAY FOR EXPENDITURES AT THE ALLOCATED LEVEL DURING THE FIRST FOUR MONTHS.

SECONDLY, CONGRESS LEFT THE EXACT AMOUNT OF REDUCTIONS TO ES GRANTS AND UI GRANTS UP TO THE DEPARTMENT OF LABOR. THE DEPARTMENT DECIDED THAT THE BULK OF THE REDUCTION -- 80 PERCENT -- SHOULD BE BORNE BY ES GRANTS. SINCE THE UI GRANTS PROGRAM IS ROUGHLY TWICE THE SIZE OF THE ES GRANTS PROGRAM, THE ADDITIONAL REDUCTION TO ES GRANTS EXCEEDED THIRTY PERCENT.

THE COMBINED EFFECT OF THE OCTOBER AND DECEMBER REDUCTIONS HAS BEEN A CATESTROPHIC 60% REDUCTION IN ES. LET ME LIST JUST A FEW OF THE THINGS THAT HAVE HAPPENED IN WASHINGTON STATE:

ON OCTOBER 1, WE CLOSED EIGHT JOB SERVICE CENTERS.

DURING DECEMBER AND JANUARY WE HAVE WITHDRAWN EMPLOYMENT SERVICES FROM 14 ADDITIONAL LOCATIONS, LEAVING ONLY 17 FULL-SERVICE JOB SERVICE CENTERS IN A STATE OF 3.5 MILLION PEOPLE.

SERVICES WITHIN THE REMAINING 17 JOB SERVICE CENTERS HAVE BEEN REDUCED.

WE HAVE REDUCED OUR STAFF IN THE FIELD PROVIDING EMPLOYMENT SERVICES FROM ABOUT 500 LAST FISCAL YEAR TO LESS THAN 200 AS OF FEBRUARY 1.

THE IMPACT OF THESE REDUCTIONS WILL BE FELT THROUGHOUT THE STATE AND ITS ECONOMY.

WE PROJECT THAT PLACEMENTS DURING THE NEXT 12 MONTHS WILL INCLUDE ONLY 33,800 INDIVIDUALS -- A DROP OF OVER 60 PERCENT FROM THE 82,000 PLACED DURING THE PAST FISCAL YEAR.

EMPLOYMENT SERVICES HAVE BEEN WITHDRAWN FROM LOCATIONS WHICH, DURING THE LAST YEAR, SERVED 30 PERCENT OF THE STATE'S POPULATION.

THE AGENCY WILL NOT BE ABLE TO SERVICE UI CLAIMANTS WHO, AS A RESULT OF PLACEMENT, WERE NOT PAID $1.7 MILLION IN BENEFITS DURING THE PAST YEAR.

ABOUT $20 MILLION WILL NOT BE CONTRIBUTED TO THE ECONOMY IN WAGES OF PEOPLE PLACED THROUGH THE EMPLOYMENT SERVICE SYSTEM. (THIS IS BASED ON THE STANDARD RESEARCH INSTITUTE STUDY THAT FINDS THAT ES PLACEMENT "ACCELERATES" EMPLOYMENT BY ONE TO THREE WEEKS.)

QUALITY SERVICES, SUCH AS COUNSELING AND TESTING, HAVE HAD TO BE DEEMPHASIZED ALMOST TO THE POINT OF DISCONTINUATION.

THE LINES IN OUR OFFICES ARE LONGER. CLIENTS MUST OFTEN TRAVEL SUBSTANTIAL DISTANCES AND WAIT LONGER. THE SERVICES AVAILABLE TO THEM ARE NOT NEARLY AS COMPREHENSIVE AS THEY WERE A YEAR AGO. THERE ARE MANY MORE PEOPLE ENTERING OUR DOORS AS UNEMPLOYMENT RISES DUE TO THE CURRENT RECESSION.

ADMINISTRATION OF THE EMPLOYMENT SERVICE AND ADMINISTRATION OF UNEMPLOYMENT INSRUANCE IS PAID FOR TOTALLY BY THE FEDERAL UNEMPLOYMENT TAX PAID BY EMPLOYERS. BY LAW, THIS CAN BE USED FOR NO OTHER PURPOSES BUT ES AND UI ADMINISTRATION. THE FUTA TAX HAS NOT BEEN REDUCED. THE MILLIONS OF DOLLARS IN TAXES COLLECTED WILL SIMPLY ACCRUE IN THE UI TRUST FUND BECAUSE THEY CAN'T BE SPENT FOR OTHER PURPOSES.

IN EFFECT, EMPLOYERS, ACROSS OUR STATE, ARE PAYING MILLIONS FOR SERVICES WHICH WE CANNOT DELIVER. AT THE SAME TIME, THE NUMBER OF PEOPLE OUT OF WORK IN WASHINGTON STATE APPROACHES 200,000 WITH 120,000 DRAWING UNEMPLOYMENT INSURANCE BENEFITS. THE GENERAL PUBLIC IS NOT RECEIVING SERVICES WHICH IT DESPERATELY NEEDS.

IN SUMMARY, WITHOUT THE CAPABILITY TO PROVIDE AN EFFECTIVE JOB TEST OR PLACE UI CLAIMANTS, THE STATE UI TRUST FUND WILL BE ADVERSELY IMPACTED BY THE INCREMENTAL INCREASE IN UI BENEFITS. THIS WILL RESULT IN INCREASE TAXATION ON EMPLOYERS TO KEEP THE FUND SOLVENT OR REPAY LOAN AND INTEREST.

THE IRONY OF ALL OF THIS IS THAT THE EMPLOYERS ARE PAYING FEDERAL TAXES TO PROVIDE FOR ADMINISTRATIVE SERVICES WHICH ARE BEING CUT, FOR WHICH THEY RECEIVE NO TAX CREDIT, AND THEN THEY ARE FORCED TO PAY MORE STATE TAXES BECAUSE OF INADEQUATE ADMINISTRATION OF THE UI SYSTEM.

EFFECT OF E. S. CUTS ON UI PROGRAM

NPS COSTS ARE ALLOCATED BASED ON POSITIONS CHARGED. AS A RESULT OF THE CURRENT ES REDUCTIONS, UI WILL BE REQUIRED TO ABSORB AN ADDITIONAL $273,800 IN NPS CHARGES.

AS&T COSTS ARE ALSO ALLOCATED BASED ON POSITIONS CHARGED. AS A RESULT OF THE CURRENT AGENCY BUDGET REDUCTIONS, THE COMPOSITION OF THE AS&T CHARGES IS UNDERGOING EXTENSIVE REVISION AND THE IMPACT ON UI IS NOT YET KNOWN.

WITH A REDUCTION FROM 32 TO 17 FULL SERVICE LOCAL OFFICES, A SIGNIFICANT MOVEMENT OF SENIOR ES STAFF TO UI POSITIONS WILL OCCUR (WE ESTIMATE THAT APPROXIMATELY 50% OF THE 215.17 RIF'd ES POSITIONS WILL "BUMP" INTO UI FUNCIONS). THIS WILL AFFECT THE FOLLOWING THREE AREAS:

1. THE UI SALARY RATE - ASSUMING THAT CONTINGENCY WORKLOAD IS PERFORMED BY PERMANENT ES STAFF IN LIEU OF INTERMITTENT STAFF AT A LOWER RATE, THE UI COST WILL INCREASE OVER THE BUDGETED LEVEL SET BY THE FED'S. THIS WILL RESULT IN A SALARY RATE UNDERFUND OF $70 PER STAFF MONTH FOR AN ESTIMATED OVERSPEND OF $659,585 ($70 X 785.22 X 12).
2. TRAINING NEEDS - STAFF TRAINING RESULTING FROM REASSIGNMENTS WILL COST $166,950 BASED ON THE FOLLOWING ESTIMATES:

	Staff #	Per Diem (#)	Travel (#)	Total
ICC-CC	125	15,300 (85)	3,750 (125)	19,050
BASIC NONMON	72	10,800 (60)	2,160 (72)	12,960

O/P	48	3,360 (42)	440 (43)	4,800

TRAINING COSTS 48,510

STAFF HOURS EXPENDED BY TRAINEES ARE 8,992 (5.04 FTE) @ $23,500= $118,440.

3. PRODUCTIVITY COSTS RELATED TO RETRAINING STAFF ARE ANTICIPATED TO APPROXIMATE THE EQUIVALENT OF 49 FTE's, TRANSLATING TO $1,120,672 (49 FTE's @ $1547 PER MONTH PLUS BENEFITS).

EFFECT ON UI TRUST FUND

BECAUSE OF THE REDUCED, AND IN MANY CASES THE ELIMINATION OF, EMPLOYMENT SERVICES, WE WILL NO LONGER BE ABLE TO TEST CLAIMANTS' AVAILABILITY AND WILLINGNESS TO WORK BY OFFERING THEM JOBS.

CLAIMANTS WILL REMAIN ON UI LONGER. DURING BY '81, 9,241 CLAIMANTS WERE PLACED IN JOBS THROUGH OUR EMPLOYMENT SERVICES REPRESENTING A WEEKLY SAVINGS TO THE TRUST FUND OF $1,080,119. ($116.88 AVERAGE BENEFIT AMOUNT X 9,241).

REDUCED STAFFING WILL MEAN A REDUCTION IN THE AREA OF FRAUD DETECTION. THERE WILL BE A REDUCTION IN THE MONITORING OF ELIGIBILITY REQUIREMENTS, AND FEWER OVERPAYMENTS WILL BE IDENTIFIED AND RECOVERED. ADDITIONALLY, WE ANTICIPATE FEWER AUDITS OF EMPLOYER PAYROLLS; AN INCREASED LEVEL OF TAX DELINQUENCY; AND A REDUCED LEVEL OF COLLECTIONS AND OTHER TAX ENFORCEMENT ACTIVITY.

THEREFORE, THE DRAIN ON THE UI TRUST FUND IS EXPECTED TO INCREASE DRAMATICALLY OVER THE NEXT YEAR, AND AS A RESULT EMPLOYERS MAY HAVE TO FACE AN INCREASE IN THE EMPLOYER TAX.

FISCAL YEAR 1982 WIN REDUCTIONS

IMPACT ON STATE OF WASHINGTON

WIN (WORK INCENTIVE PROGRAM)

THE WASHINGTON STATE WORK INCENTIVE (WIN) PROGRAM HAS BEEN FORCED TO DRASTICALLY REDUCE PROGRAM OPERATIONS BECAUSE OF RECENT FEDERAL FUNDING CUTS OF 35 PERCENT ($4.8 MILLION) RETROACTIVE TO OCTOBER 1, 1981. WASHINGTON WIN WAS THE MOST EFFECTIVE IN THE NATION -- NUMBER ONE! -- IN FISCAL YEAR 1981, FINDING JOBS FOR MORE PEOPLE AND ACHIEVING GREATER WELFARE GRANT REDUCTIONS PER PROGRAM DOLLAR THAN ANY OTHER STATE. JOBS WERE FOUND FOR 9,522 WELFARE CLIENTS AT AN OPERATING COST OF $13,362,209. EVERY PROGRAM DOLLAR SPENT SAVED $3.52 IN WELFARE GRANTS. ANNUALIZED WELFARE GRANT REDUCTIONS TOTALLED $43,503,184. THIS MEANS THAT $30,140,975 MORE WERE SAVED IN WELFARE GRANTS THAN THE PROGRAM COST TO OPERATE.

THE 35 PERCENT CUT IN FUNDING TRANSLATES TO THE CLOSURE OF FIVE OUT OF 17 OFFICES, AND REDUCTION OF 104 ESD STAFF FROM 219 IN FY 1981. DSHS IS LOSING 45 WIN STAFF. FUNDING REDUCTIONS MEAN THAT EIGHT THOUSAND FEWER PROGRAM CLIENTS WILL RECEIVE SERVICES. WE ESTIMATE ONLY 6,500 JOBS WILL BE FOUND IN FY 1982, 3,000 LESS THAN LAST YEAR. WELFARE GRANT REDUCTIONS WILL DROP BETWEEN TEN AND FOURTEEN MILLION DOLLARS.

ECONOMIC LOSS TO STATE DUE TO ELIMINATION OF CETA PUBLIC SERVICE EMPLOYMENT (PSE) PROGRAM

THE NUMBER OF PARTICIPANTS ENROLLED AT THE HEIGHT OF THE PROGRAM IN MARCH 1981, WAS 6,535. WITH THE ELIMINATION OF $38 MILLION IN PSE EXPENDITURES, THE LOSS TO THE STATE'S ECONOMY IS ESTIMATED TO BE $190 MILLION DURING FY 1981.

IMPACT ON SERVICES INCLUDED REDUCTIONS IN THE FOLLOWING AREAS:

STATE GOVERNMENT

- TRANSPORTATION FOR THE DISADVANTAGED
- CLERICAL SUPPORT FOR THE DEPARTMENT OF SOCIAL AND HEALTH SERVICES
- PARKS AND RECREATION SERVICES
- EMPLOYMENT SERVICES

LOCAL GOVERNMENT

- SCHOOL DISTRICTS

- SERVICES TO CITIES AND COUNTIES (LAW ENFORCEMENT, ROAD AND STREET PROJECTS, PUBLIC HEALTH PROGRAMS, CAPITAL IMPROVEMENTS, RECREATION ACTIVITIES, STREAM IMPROVEMENT AND FLOOD CONTROL, ETC.)

NOTE: IN 1981, OF THE 18,000 INDIVIDUALS EMPLOYED IN COUNTY GOVERNMENT, 1,235 WERE PSE PARTICIPANTS. THIS FIGURE REPRESENTS 6.9 PERCENT OF TOTAL COUNTY EMPLOYMENT

PRIVATE NON-PROFIT

- DAY CARE

- YOUTH SERVICES (COUNSELING AND RECREATION)

- HANDICAPPED AND RETARDED CLIENT SERVICES

- LEGAL SERVICES

- ALCOHOLISM: COUNSELING, TREATMENT AND REHABILITATION

- WEATHERIZATION

- NUTRITION

- HEALTH SERVICES

UNEMPLOYMENT INSURANCE

THE DEPARTMENT OF LABOR HAS UTILIZED THE FUNDS TAKEN FROM TITLE VI TO FINANCE THE UNEMPLOYMENT INSURANCE COSTS ASSOCIATED WITH THE PHASE-OUT OF TITLES IID AND VI. (LOCAL GOVERNMENTS DID NOT ASSUME THE RESPONSIBILITY FOR UI COSTS REGARDING TERMINATED PSE PARTICIPANTS.)

- AS OF OCTOBER 1981, 519 INDIVIDUALS WERE DRAWING BENEFITS.

- AVERAGE MONTHLY BENEFIT WAS $356.00.

- THE AVERAGE BENEFIT DURATION WAS EXPECTED TO BE FOUR MONTHS.

- THE COST OF PROVIDING UI BENEFITS FOR PARTICIPANTS DURING OCTOBER 1981 WAS $180,000.

IMPACT OF BUDGET REDUCTIONS ON CETA TITLES

FY 1982 BUDGET CUTS HAVE RESULTED IN A 111.6 ESTIMATED REDUCTION IN WASHINGTON'S CETA PROGRAM.

DOLLARS REDUCED FOR EACH TITLE ARE ESTIMATED AS FOLLOWS:

GOVERNOR'S GRANT	2.7 MILLION	
TITLE II-B	7.1 MILLION	(BASIC CETA PROGRAMS)
TITLE II-D	43.6 MILLION	(PSE)
TTLE IV	13.5 MILLION	(YOUTH)
TITLE VII	1.5 MILLION	(PRIVATE SECTION INITIATIVE PROGRAM)
TITLE III	7.2 MILLION	(SPECIAL FEDERAL PROGRAMS: MIGRANT AND SEASONAL FARMWORKERS, NATIVE AMERICANS, DISPLACED HOMEMAKERS, ETC.)
TOTAL	111.6 MILLION	

ALL OF THE ABOVE FIGURES ARE SUBJECT TO AN ADDITIONAL 4 PERCENT AS A RESULT OF THE SECOND CONTINUING RESOLUTION FOR THE FY 1982 BUDGET, PASSED BY CONGRESS ON DECEMBER 11. THIS WILL RESULT IN A MINIMUM OF $20 MILLION IN ADDITIONAL CUTS TO SELECTED PROGRAMS.

WITH THE EXCEPTION OF THE PUBLIC SERVICE EMPLOYMENT PROGRAM, THE TOTAL IMPACT OF THESE REDUCTIONS ON THE STATE OF WASHINGTON IS NOT KNOWN. HOWEVER, THE FOLLOWING IS A SUMMARY OF THE IMPACT OF REDUCTIONS ON TITLES II-B/C AND IV.

TITLE II-B/C

FUNDS AVAILABLE:	FY 1981:	$50,258,282
	FY 1982:	$38,228,387

IMPACTS: APPROXIMATELY 24 PERCENT REDUCTION IN FUNDS FOR FY 1982.

- 25 PERCENT FEWER INDIVIDUALS SERVED (4,500 PEOPLE)
- 25 PERCENT REDUCTION IN STAFF IN PRIME SPONSOR AND/OR OTHER ORGANIZATIONS CONTRACTED TO PROVIDE CETA SERVICES TO PROGRAM PARTICIPANTS.
- CETA BUDGET REDUCTIONS WILL SIMULTANEOUSLY INCREASE EXPENDITURES FOR PROGRAMS LIKE UI, FOOD STAMPS AND PUBLIC ASSISTANCE.

TITLE IV (YOUTH EMPLOYMENT DEMONSTRATION PROGRAM)

YETP - FUNDS AVAILABLE:	FY 1981:	$8,943,455
	FY 1982:	$3,367,980

IMPACTS: 60 PERCENT REDUCTION IN FUNDING.

- ESTIMATED 3,600 FEWER YOUTH SERVED AT A TIME WHEN THE YOUTH UNEMPLOYMENT RATE IS INCREASING.
- REDUCTIONS IN STAFF IN PRIME SPONSOR AND OTHER CONTRACTING ORGANIZATIONS.

YCCIP - FUNDS AVAILABLE:	FY 1981:	$2,933,314
	FY 1982:	$849,935

IMPACTS: 70 PERCENT REDUCTION IN FUNDING.

- ESTIMATED 1,400 FEWER YOUTH SERVED.

SUMMER YOUTH EMPLOYMENT PROGRAM -

FUNDS AVAILABLE:	FY 1981:	$10,779,113
	FY 1982:	$8,946,570

IMPACTS: 17 PERCENT REDUCTION IN FUNDING.

- REDUCTION IN THE NUMBER OF AVAILABLE SUMMER JOBS FOR DISADVANTAGED YOUTH.

IN FY 1981 41,251 INDIVIDUALS WERE ENROLLED IN CETA PROGRAMS THROUGHOUT THE STATE. OF THOSE, APPROXIMATELY 44 PERCENT ENTERED EMPLOYMENT.

	II-B/C	II-D	IV	VI	VII
ENROLLED	21,272	6,694	7,369	3,856	2,486
ENTERED RATE OF EMPLOYMENT	51.1%	42.4%	27.6%	41.5%	58.4%

THESE REDUCTIONS REPRESENT A TRAINING LOSS TO INDIVIDUALS BY TITLE AS FOLLOWS:

II-B/C	II-D	IV	VI	VII
4,142	11,692	914	9,680	1,078

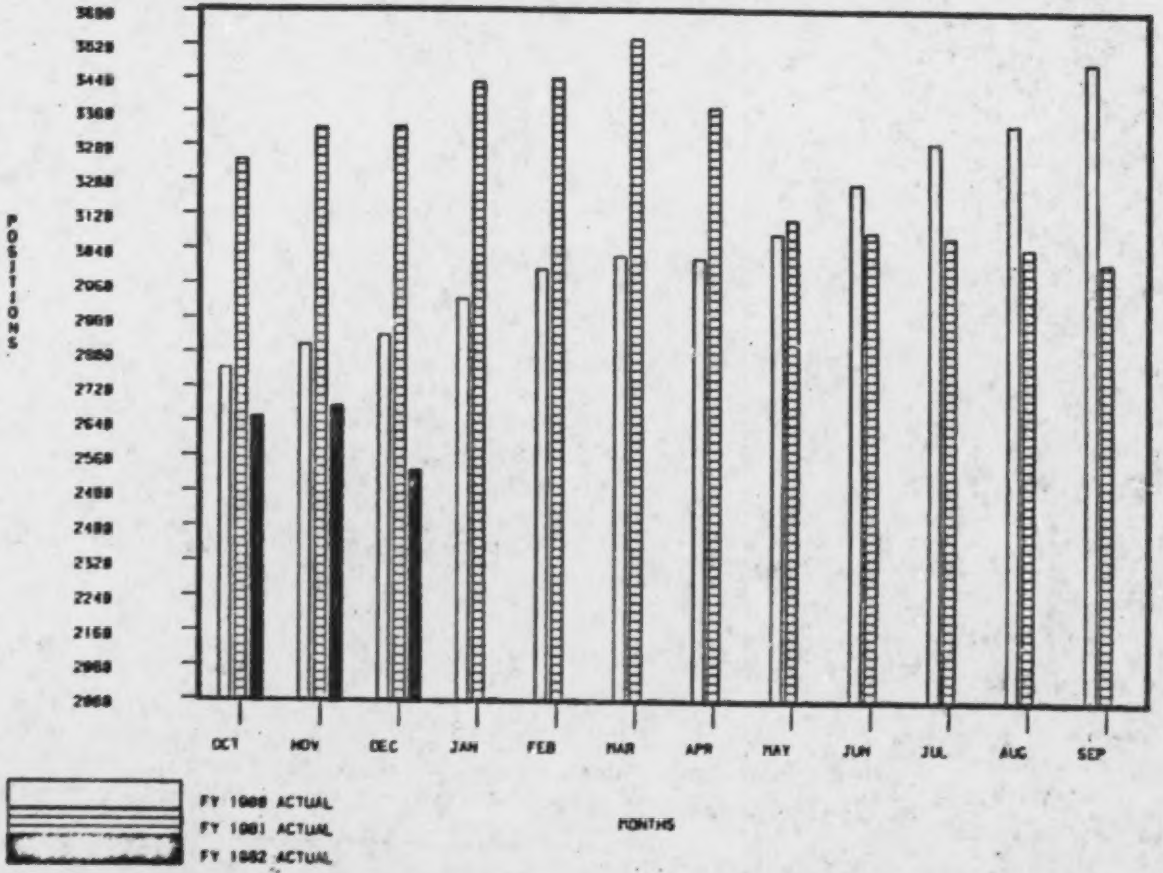
SUMMARY

IN CLOSING, IT IS UNFORTUNATE THAT THE FUNDING LEVELS FOR PROGRAMS THAT HAVE EFFECTIVELY ADDRESSED THE NEEDS OF THE UNEMPLOYED HAVE BEEN REDUCED DURING A PERIOD THAT THE NUMBER OF UNEMPLOYED IS AT ITS GREATEST LEVEL. IN VIEW OF THIS, I WOULD ENCOURAGE RESTORATION OF THESE FUNDING LEVELS OF THESE PROGRAMS AS PART OF THE MARCH-SEPTEMBER BUDGET SO THAT THE UNEMPLOYED AND UNDEREMPLOYED WORKERS CAN BE PROVIDED MUCH NEEDED TRAINING AND JOB-FINDING ASSISTANCE DURING THESE BAD ECONOMIC TIMES.

[illegible]

	Actual '81 incl. 24 DVOP	1st Cut Federal Budget	Variance %	%Change from '81	Latest Federal Budget	Variance from 1st Cut	%Change from 1st Cut	Variance from '81	Retroactive Impact Feb. level	Variance from '81
FTE	669	509	-160	(-24 %)	364.5	-144.5	(-28%)	-304.5 (-45.5%)	275	-394 (-58.9%)
Dollars	17,027,072	14,688,556	-2,338,516	(-13%)	10,757,604	-3,930,952	(-27 %)	-6,269,468 (-36.8 %)		

EMPLOYMENT SECURITY DEPARTMENT
TOTAL AGENCY STAFFING

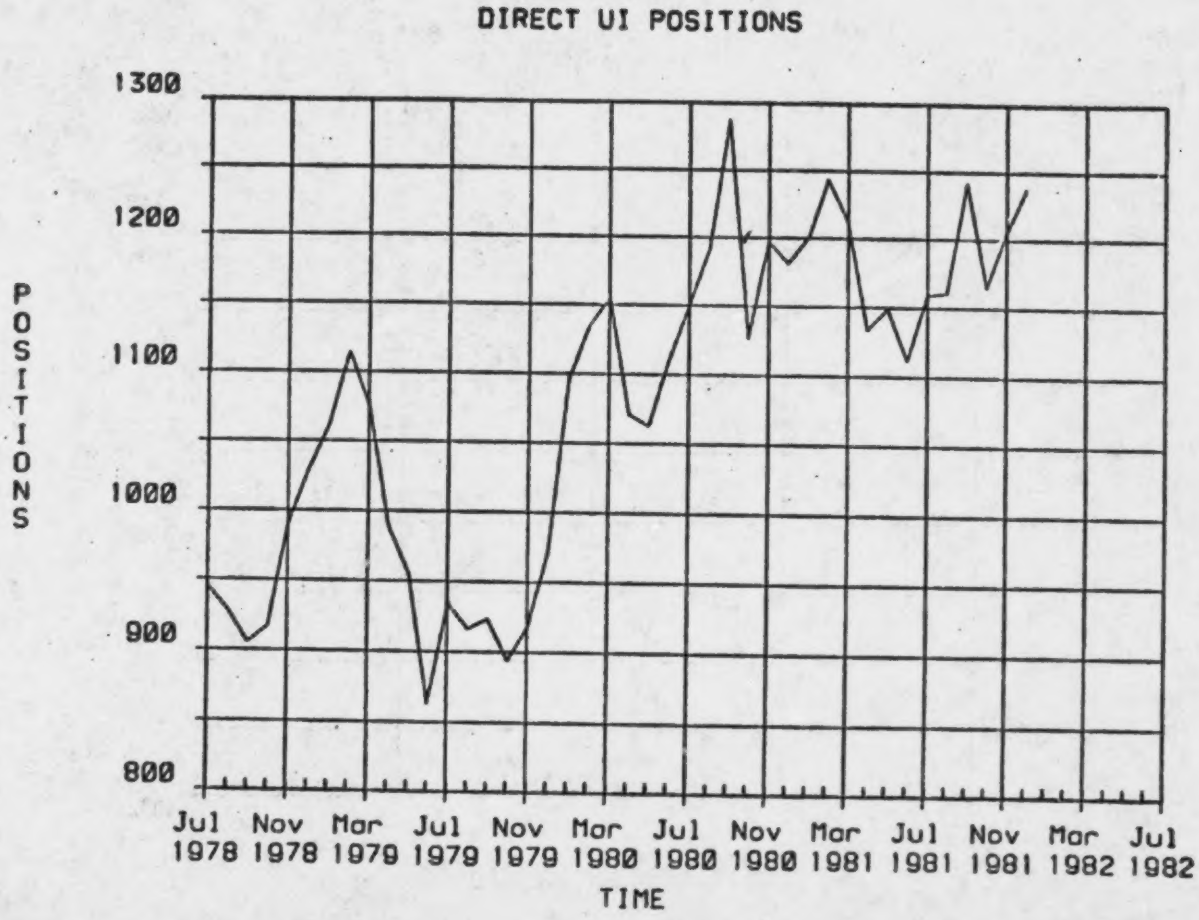


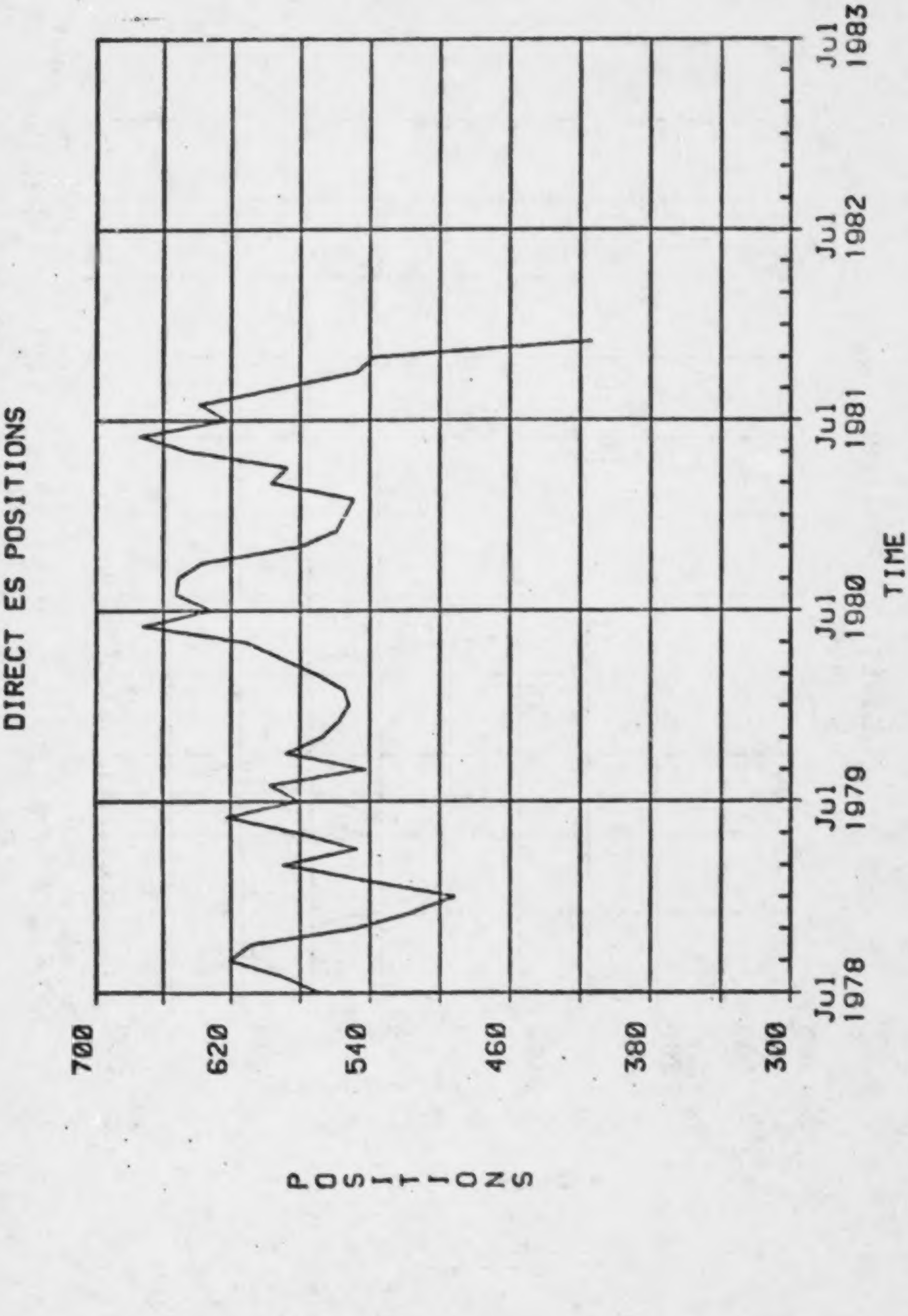
TOTAL AGENCY STAFFING

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT
FY 1980	2763	2816	2839	2923	2993	3024	3019	3076	3193	3290	3335	3484
FY 1981	3245	3322	3324	3432	3443	3538	3372	3110	3084	3073	3048	3016
FY 1982	2650	2675	2526	2451	2244							

STAFFING BY MAJOR PROGRAM

	ACTUAL FY 80	ACTUAL FY 81	ACTUAL OCT 81	ACTUAL NOV 81	ACTUAL DEC 81	Est Jan	Est Feb
AS&T	157	173	156	152	152	147	118
ES	596	602	548	538	413	356	257
UI	1086	1172	1165	1206	1238	1240	1250
Food Stamps	35	95	35	34	37	35	35
WIN	231	239	249	249	240	238	149
Other Federal	80	73	53	49	55	55	55
CETA	576	637	366	363	342	342	342
State	29	35	50	41	38	38	38
PSE	261	203	0	0	0	0	0
Terminal Leave	___	14	28	43	12	NA	NA
TOTAL	3052	3243	2650	2675	2526	2451	2244


DIRECT UI POSITIONS
POSITIONS
1300
1200
1100
1000
900
800
Jul 1978
Nov 1978
Mar 1979
Jul 1979
Nov 1979
Mar 1980
Jul 1980
Nov 1980
Mar 1981
Jul 1981
Nov 1981
Mar 1982
Jul 1982
TIME


DIRECT ES POSITIONS
700
620
540
460
380
300
POSITIONS
Jul 1978
Jul 1979
Jul 1980
Jul 1981
Jul 1982
Jul 1983
TIME

ASSUMPTIONS

ES GRANTS FY 1982 FORECAST

1. Staffing phase down schedule:

	Oct	Nov	Dec	Jan	Feb		Sept
Direct ES Staff	537	538	413	356	257	-----	257

   It was assumed no overexpenditures from this plan will occur.

2. Salary rates were forecasted with consideration of revised mix of staff following the RIF. These were estimates that will need to be refined.

3. Potential salary increase funding ranges from the expected level of $79,200 to $368,100. The upper ceiling represents an adjustment directed toward funding only the agency's highest paid permanent staff. ETA has indicated that only legislatively approved salary increases will be funded above the FY 1982 allocation. The $79,200 represents the difference between the 7.2% that was funded for the October 1, 1981 salary increase and our request for 8.4%.

4. The AS&T forecast assumes an annual total agency AS&T budget of 129.6 positions and $4,899,000, following the RIF.

FISCAL YEAR 1982 FINANCIAL STATUS PROJECTED THROUGH 9/30/82

ES GRANTS

	Direct Positions	Direct PS/PB	Direct Salary Rate	AS&T Positions	AS&T PS/PB	AS&T Salary Rate	NPS	TOTAL
ES Grants								
Budget	342.6	$7,973,790	1,582	21.85	598,907	1,863	2,184,907	$10,757,604
Forecast	321.8	7,793,808	1,647	24.5	642,267	1,777	2,454,418	10,890,493
Variance	20.8	179,982	-65	- 2.65	-43,360	86	- 269,511	- 132,889
Potential SBR:								
Salary increase funding from 7.2% to 8.4%								79,211
Revised variance								- 53,678

ASSUMPTIONS

UI GRANTS FY 1982 FORECAST

1. The reduction of the ES program will have three major effects on the UI program:

   a. The average salary rate will increase due to the reduction of lower paid individuals (many intermittent) and replacement of higher paid staff from other fund sources.

   b. The UI program will represent a larger share of a cost center and thus will receive a greater proportion of the allocated nonpersonal services (premises rent, communications, etc.)

   c. The UI program will represent a larger share of the agency's programs sharing in AS&T. Despite reductions in the staffing level for AS&T, the UI program will accrue a substantial AS&T deficit due to its larger percentage allocation and the historical underfunding of above-base AS&T by the federal government.

2. Forecast No. 1 assumes the increased salary rate in UI due to the ES cuts will be funded by ETA through the above-base contingency process. The current fixed salary rate of $1,319 per month will be increased to cover the agency's actual contingency salary expenditures. The estimated total contingency rate may approach $1,500 per month.

   Forecast No. 2 assumes that ETA will not adjust the above-base contingency salary rate above the current rate of $1,319 per month. This would force the base UI program to absorb the added salary expenditures.

3. Potential salary increase funding for base UI ranges from the expected level of $165,500 to $1,265,300. The upper ceiling represents an adjustment directed toward funding only the agency's highest paid permanent staff in the base. ETA has indicated that only legislatively approved salary increases will be funded above the FY 1982 allocation. The $165,500 represents the difference between the 7.2% that was funded for the October 1, 1981 salary increase and our request for 8.4%.

FISCAL YEAR 1982 FINANCIAL STATUS PROJECTED THROUGH 9/30/82

UI GRANTS

	Direct Positions	Direct PS/PB	Direct Salary Rate	AS&T Positions	AS&T PS/PB	AS&T Salary Rate	NPS	TOTAL
. Assumes ETA revises above-base upward based on actual costs.								
Budget	786.1	$18,077,461	1,563	61.44	1,670,413	1,848	4,282,446	$24,030,320
Forecast	784.4	18,217,367	1,577	72.3	2,012,484	1,887	5,118,159	25,348,010
Variance	1.7	- 139,906	- 14	- 10.86	- 342,071	- 39	- 835,713	- 1,317,690
Potential SBR:								
Salary increase funding from 7.2% to 8.4%								165,474
Revised Variance								- 1,152,216
. Assumes above-base rate is not adjusted for change in salary mix								
Budget	786.1	$18,077,461	1,563	61.44	1,670,413	1,848	4,282,446	$24,030,320
Forecast	784.4	18,877,436	1,634	74.3	2,060,666	1,883	5,118,159	26,056,261
Variance	1.7	- 799,975	-71	- 12.86	-390,253	- 35	-835,713	-2,025,941
Salary Increase SBR								165,474
Revised Variance								- 1,860,467

If we had to make up $835,700 NPS shortfall in remaining 8 months thru another RIF it would take a further reduction of 54 positions.

Mr. RANGEL. Mr. Hance.

Mr. HANCE. You mentioned the WIN program. You said it had been very successful here in this State. Have you been able to get people back to a position where they were able to earn sufficient funds and not need AFDC payments any more?

Mr. BROOKS. The ones I am talking about were in unsubsidized jobs.

Mr. HANCE. After the training and after they had worked for a while, were they able to get a better job so they didn't need the payments?

Mr. BROOKS. I have not tracked beyond employment.

Mr. HANCE. What is your unemployment rate?

Mr. BROOKS. It is 10.1 percent as of November.

The December figures have not come out yet. Our projection for unemployment, however, is that for December, that the unemployment rate will be approximately 11 percent.

Mr. HANCE. Even with the Christmas rush and everything?

Mr. BROOKS. We didn't realize a significant increase in job opportunities during Christmas.

Mr. HANCE. Retail sales were down?

Mr. BROOKS. That is correct.

Mr. HANCE. What is the unemployment rate in Seattle? Does it run above or below the State average?

Mr. BROOKS. Ten point one is statewide. The Seattle equivalent of that is 8.5 percent.

Mr. RANGEL. Mr. Gradison.

Mr. GRADISON. No questions, Mr. Chairman.

Mr. RANGEL. Mr. Pritchard.

Mr. PRITCHARD. No questions.

Mr. RANGEL. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

Go into a little bit more detail about the fact you have some businesses that may be paying for a service that because of administrative problems, they are presently not receiving.

Mr. BROOKS. There are two taxes that are involved with the unemployment insurance program. One is a State tax, and the State tax is assessed on the employer, and the revenue from that tax is used to pay benefits.

There is a Federal tax that is assessed on the employer, and that tax is used to provide administration to the unemployment insurance program, as well as the job search program.

What they are saying is in the cuts that we have taken in the grants program, in both continuing resolutions, came from the dedicated, I mean, the revenue that is setting there as money allocated for the services, for the administration of the unemployment insurance are not being released.

The administrative services that we should be providing to employers in terms of referral of applicants looking for jobs, in terms of unemployment benefits to people terminated, and they are not being provided.

Mr. ANTHONY. That money has been collected?

Mr. BROOKS. Yes.

Mr. ANTHONY. It has been paid into Washington?

Mr. BROOKS. Yes.

Mr. Anthony. Who made a decision not to release the money?

Mr. Brooks. In the continuing resolution, the Congress passed a reduction in the unemployment security system, the grants, the budget.

Mr. Anthony. What about the money that was still remaining in there that was not cut out? Could it not be used?

Mr. Brooks. I don't know how much was in there, so I can't indicate as to whether there were additional moneys that could be used, but each year money is collected, and the purpose of that money is to be directed to administration.

The fund at one time did go into a deficit condition, because the fund is used for two purposes, administration and used for paying extended benefits.

At one time, as you recall, the Federal Government had two extensions to the Federal unemployment insurance benefits. As a result of paying out those Federal extended benefits, the fund was depleted, and moneys had to be borrowed from the general fund in order to continue to pay benefits.

I don't know the status of the fund today, whether we have recaptured that or not.

Mr. Anthony. I will have to check into this. It appears that there may be one of those little hidden taxes. It is being used for something else to help balance the budget, and not going to the intention of providing unemployment services to get people back to productive work.

Mr. Brooks. That is our intention.

Mr. Anthony. You encourage this panel to take a close look at that?

Mr. Brooks. The second part to that is that the employer at the same time pays a tax to the State which provides the benefits.

Now, that is a State trust fund. If we do not have adequate administration which comes from the Federal dollar, then the impact is on the State trust fund, and we have to pay out more in benefits, because claimants will probably remain unemployed drawing benefits for longer periods of time, and that impact on the State trust fund would cause the employers' tax to be increased to keep that fund solvent.

On the one hand, while funds are being held up which are employer-paid funds, he is penalized by having to pay more funds at the State level which we suggest much could be saved if we had proper level of administration.

Mr. Anthony. The average unemployment usually runs about 14 to 16 weeks. What would be the average unemployment, drawing benefits in the State of Washington?

Mr. Brooks. Average now of unemployment, it averages about 16 weeks. However, we have people that are now exhausting at a higher level which means that many people are now going through to completion, and I would think it is probably in the neighborhood of 20 to 20-plus.

Mr. Anthony. You see more outlays going out in that area. Part of the administration's goal to cut on the Federal level, saying the State will pick up the programs, the local government will pick up the programs, and private enterprise will pick up the programs and also saying our charitable organizations will pick up the programs.

Since we are in a recession and now approaching 9 percent unemployment, and some anticipating that we will go to 10 percent before the first 6 months of this year is over, what positive signs do you see in the State of Washington, the city of Seattle or any other city or county in the State where private enterprise or charitable organizations are actually picking up WIN programs, unemployment training programs, so that these people will have the employable skills that employers need?

Mr. **Brooks**. The State legislature at this point entertained various State-funded programs that might address part of the problem.

We find that we have a communication problem. We have to make more employers, and more of the social service agencies aware of the problem and we are getting to that and we will begin to get inquiries as to types of programs that might be introduced and it will take a while to soak in, one, that the services that have traditionally been here to provide this form of assistance is no longer there.

Once we get that across, we might have more. One thing that we have to pose, and I think the legislature will address to the Congress is that the moneys that are now being collected as part of the FUTA tax perhaps should be turned over to the States, and let the States collect that money, and let the State decide the administrative level which the system should operate.

Mr. **Anthony**. One final question. As you went through your testimony you talked about the first round of cuts, 17 percent, and the last Budget Reconciliation Act, 30 percent cut, and then made retroactive to October first so you had overspent and had to go back and find another 7½ percent, 417 people being riffed and another 7½ percent, well, I assume that during all that period of time it became a little bit unsettling within your own office?

Mr. **Brooks**. That is correct.

Mr. **Anthony**. What would happen if we laid the same thing on you in 1982?

Mr. **Brooks**. It would get worse because the first level of cuts involved a lot of temporary workers, people that we had used within employment insurance programs. As the volume increased, we actually brought on temporary people.

The second round of cuts involve people that were in career service, people that had been there as long as 16 or 17 or longer years.

The third cut would be very devastating to the agency, and perhaps the agency might not be able to function.

Mr. **Anthony**. Thank you very much.

Mr. **Rangel**. Mr. Lowry.

Mr. **Lowry**. Thank you, Mr. Chairman.

If there was some way to extend the unemployment benefits to another 13 weeks such as in the past, how difficult would it be to administer that for the people presently receiving benefits and those who have already exhausted their benefits?

Mr. **Brooks**. It would not be difficult. We have gone through that experience quite a few times, so that is not a problem to extend.

The major problem that we face, if it is a sharing between State and Federal, we wouldn't have a problem.

If the State and Federal shift, we would have a problem because the trust fund is not actuarily prepared to assume the additional responsibility of increased extensions, so it would probably deplete the trust fund which is in a precarious state right now.

We have approximately $350 million in reserve. For the trust fund to be actuarily sound, the trust fund requires about $1 billion, so we can't take much of an unanticipated extension.

Mr. LOWRY. Was the previous extension a loan to the State or a shared basis, or how did that work?

Mr. BROOKS. The 13 weeks, we are in an extended benefit program now, and that is, 50/50 share between the Feds and the States.

The additional extensions that we have had during the mid-seventies were all federally financed.

Mr. LOWRY. Thank you, Mr. Chairman.

Mr. RANGEL. Thank you. As your State goes through one of its roughest unemployment periods and your agency has the responsibility to lighten the burden by training and placing unemployed workers, the Federal cuts have caused you to actually reduce services to those who need the services the most?

Mr. BROOKS. That is correct.

Mr. RANGEL. It was our understanding that the churches would come forward and fill this gap, or that the private sector would.

Have they come to you with any offers to relieve you of this responsibility?

Mr. BROOKS. No, I think that in the age we are in, the job finding business, it is difficult for social agencies to be in a posture to help, and as the word gets out that we are having these kinds of problems, in the future we might be able to get that kind of response.

We have to tell them what we need.

Mr. RANGEL. There are some people calling for deeper cuts?

Mr. BROOKS. I understand.

Mr. RANGEL. Well, we will be back.

Thank you so much for your testimony.

We have the speaker of the house of representatives, Mr. William Polk, and also the ranking minority member of the senate committee on ways and means, our counterpart in State government, Mr. James McDermott.

Mr. Polk, your full statement will be placed in the record.

We appreciate your testimony. You may proceed.

STATEMENT OF WILLIAM M. POLK, SPEAKER OF THE HOUSE OF REPRESENTATIVES, STATE OF WASHINGTON

Mr. POLK. Thank you, Mr. Chairman. I was busy trying to do something for Congressman Lowry and Congressman Pritchard.

[Discussion off the record.]

Mr. POLK. For the record, my name is William M. Polk, I represent the 41st legislative district, which is part of the 7th Congressional District.

I am delighted at the opportunity to appear before you today to offer a few comments about the success, or as some may say, the failures of the President's, sorry, I am slipping into the Governor's program here, the President's program and how it should be measured affecting State and local governments.

I welcome, and most of the majority members of our house of representatives welcome this and support the President's efforts of shifting the emphasis and the burden of government away from Washington, D.C., as to what we refer to as the real Washington.

Great potential for restructuring the system to one where the States can meet national goals as well as their unique needs with their own resources, with their own organizations and their own traditions.

The States play a unique role in our system of government and at the beginning, the States created the Congress as well as the cities and counties. Yet, in the past generation or so, many pressures have tried to squeeze the States out.

By default, we have allowed the Congress to step in, and certainly those at the Federal level have volunteered to take control more often than not. The national income tax system is, after all, such an efficient money gatherer that it has overwhelmed the less efficient taxing system of the States.

Relative to local government, we have also given up significant state involvement, and that situation is coming home to roost as local officials predict a gloomy future for localities under the New Federalism.

I believe it would be a mistake to return to or to expand the direct relationship between the Federal and local governments. Such an arrangement ignores the reality that local governments are the creatures of the State government.

While we have allowed State powers to gradually erode away for the sake of Federal dollars, we have also, in recent years, begun to reassert our independence by strengthening our legislative and executive branches to more effectively carry out our responsibilities.

In looking at President Reagan's programs, I see a positive future. Where we had been mandated into mediocrity by rigidly applied, uniform program standards, the President's approach promises to allow the genius of our Federal system to reassert itself by permitting the 50 separate, rather independent State governments to meet their own and national goals in their own ways.

Based on this perspective, we endorse and enthusiastically welcome the policies of the New Federalism. And we have, from the outset, anticipated the requirements of the new policy and have structured our own legislative programs to take up the slack left by the newly diminished role of the Federal Government.

It may seem that reductions in Federal grants are coming at a bad time—at a time when most States are financially strapped and facing slow growth or significant declines in revenues from other sources. It needs to be pointed out, however, that such reductions have occurred in program areas which were closely tied to Federal mandates—cumbersome, inappropriate, and costly mandates.

In the State of Washington, these reductions—close to $400 million—were anticipated and accommodated. It is misleading to tie Federal reductions to other cash flow and revenue problems we may have. In fact, the whole process of redefining Federal involvement in human services delivery has been a powerful impetus to lawmakers and administrators to review all human services programs and operations—not just those directly affected by Federal funding reductions.

We have been able to set more realistic priorities, shift program funds to continue services which lost Federal support, discontinue nonessential programs and realize important savings without negatively impacting service delivery. The scope of the financial problems our State faces would have been beyond rational solutions without these actions.

Over $1 billion in expenditure reductions—plus hundreds of millions in additional proposed programs would have had to be added to the debit side of the ledger.

The devastating impact on our State economy, and on an already overburdened citizenry staggers the imagination. The effect of the President's courage and leadership in the fight to return to more rational spending policies cannot be overstated.

Let me give you some examples of how we accommodated Federal program changes: (1) AFDC–E and (2) FEA replaced with consolidated emergency assistance program 2 months assistance for families with children; (3) FAMCO Federal Air, Medical Care Only replaced by limited casualty program a three-pronged medical assistance program.

In vocational rehabilitation, as another example, $8 million in lost Federal funds were replaced with State general funds.

DSHS—Secretary Alan Gibbs has given you other specific examples.

Overall, the loss of 24 percent of Federal dollars had an impact of 4.6 percent on the total operating budget of $8.7 billion, certainly not an impact that could be characterized as "devastating"; "catastrophic" or even "critical" as we have heard from the moment the President took office, especially not when viewed in terms of the actual increases our 1981–83 State budget provides.

Here are some meaningful figures: Measured in constant 1972 dollars, Washington State general fund expenditures increased per capita from $1,025.19 in 1979–81 to $1,074.34 in 1981–83. And almost 5 percent real increase, or adjusted for Consumer Price Index increases, the 1981–83 SGF expenditures increased 9.6 percent.

In straight dollar terms, general fund expenditures—after the November 1981 session—still represents a 20-percent increase over the previous biennium. In spite of Federal reductions, therefore, I believe we are providing generously for the needs of our citizens.

More than the reductions and streamlining of services, the most positive impact of the President's program has been the reduction of Federal "strings," greater State flexibility and improved State/Federal as well as State/private sector relationships.

We were, for instance, able to move to an outcome-oriented review of nursing home services. In the process the survey form in use was reduced from 85 to 17 pages, and it now focuses on the quality of care rather than the myriad of bureaucratic requirements which had to be met before.

Similarly, eliminating Federal strings allowed us to deregulate daycare provided in private homes for three or fewer children. The result: more daycare services with much less Government interference.

Another example: The State will be able to raise the threshold for certificate of need review—saving funds, and removing Government interference from private sector operations while maintaining the integrity of an important program.

We also applaud the administration's policy of providing incentives for efficient and effective programs. States like Washington with a hospital commission, for example, receive 2 percent more title 19 medicaid funds than those without a commission, and fraud and abuse thresholds along with authorization to collect overpayments for AFDC will significantly improve service delivery and reduce costs.

The flexibility being granted to States—through block grants and more waivers—has been of tremendous help in our ability to accommodate reduced funding.

More can be done, however. Waivers to encourage innovative cost reductions in entitlement programs; copayments for some services and for certain types of recipients; expansion of block granting to programs such as vocational rehabilitation and inclusion of more programs in the health block are all examples of how the States could provide services more efficiently.

There is one final comment I would like to make. There is no doubt in my mind that the people of this country have mandated a diminishing role for the Federal Government in their daily lives. As that role diminishes, and as citizens continue to impose taxing and spending limits on State and local governments, all of us must look at alternative means of meeting the needs of our citizens more innovatively than we have in the past.

Concepts such as shifting human services delivery to the most immediate levels of Government, volunteerism, and more involvement of the private sector are ideas which need to be addressed more comprehensively.

In summary then, my view of President Reagan's and the Congress efforts is a positive one, because I see in it an opportunity for the revitalization of State and local government and for the reestablishment of an appropriate balance of roles and missions—not only amongst governments, but between Government and private structures as well.

Three months into the program (since October 1981), I believe we should give it a chance to work.

Gentlemen, if I sound like an adamant supporter of the President's program, it is because I am. I have listened to all the rhetoric about how we have taken away the safety net, now we have balanced the budget on the backs of the poor or anybody else we can think of, how we have dismantled Government, and I am here to tell you that that just is not so.

Let me give you a couple of statistics.

The Washington State Research Council, which is a private organization here in this State, is very good at putting statistics together in an understandable form. Washington State ranked sixth in fiscal year 1981 in local per capita expenditure for education. Washington ranked sixth in terms of fiscal year 1980 average annual teachers' salaries. Washington ranks first in terms of fiscal year 1981 percentage of State population enrolled in public institutions of higher education.

Washington ranked 10th in terms of fiscal year 1980 per capita State government expenditures for public welfare. Washington ranked sixth in terms of the maximum monthly AFDC benefit for a family of four with no other income. Washington ranked 13th in terms of fiscal year 1980 per capital State government expenditures for corrections. Washington ranked fourth in terms of average monthly salaries of State government employees for the year 1979.

Gentlemen, I do not think that is a very bad report for the State of Washington. When we hear that we have cut back drastically on spending, let me tell you that after you adjust Washington State's budget for inflation and go to constant dollars, you still find that Washington State is spending more this year than it spent last year, more in this biennium than it spent in the previous one.

I do not think that is a situation where Washington State does not care about its people, and the statistics are an indication that we have done darn well for the people of this State, and we have tried to pay our public employees well and tried to pay our teachers well and support education well.

I think we have done that.

So you can hear the dire predictions, and I heard them all when we started to revise the State budget. I heard all of them, and the man on my right can tell you most of them because he wrote them.

The fact is, it just did not happen, and we were told more people would wind up on welfare, and they have not, so I am here to tell you today that Washington State has done well and will continue to do well.

Thank you very much for this opportunity.

[The prepared statement follows:]

STATEMENT OF SPEAKER WILLIAM M. POLK, WASHINGTON STATE HOUSE OF REPRESENTATIVES

Mr. Chairman, members of the committee, ladies and gentlemen, my name is William M. Polk, Speaker of the Washington State House of Representatives, and representing the 41st Legislative District which includes Mercer Island, Bellevue and part of Renton.

I appreciate the opportunity to appear before you today to comment on federal budget policies and their impact on the changing role of state and local government as we—state and local elected officials—perceive them

Your inquiry is, in my view, a timely and significant one, because most attempts to define the impact of the administration's economic policies have, so far, focused on the overall U.S. economy and on the financial markets.

But the true test of the President's and the Congress' efforts will come at the state and local levels, as more of the burden of government is being shifted away from Washington, D.C. In looking ahead, I think there is the potential for a system where we could design our domestic programs and set our goals as a nation at the federal level. But there would be maximum flexibility for the states to reach these goals in their own ways, with their own resources, with their own organizations, and with their own traditions.

Too often, we have been mandated to a single, uniform system. The effect of this has been to mandate mediocrity. We need to allow the genius of our federal system to assert itself by allowing the 50 separate, rather independent, state governments to work toward national goals in their own way.

Those who succeed best and fastest would see their successes quickly emulated by others. Many of my colleagues and I strongly believe that the political future of state leaders should depend on their ability to accomplish national goals within their own states, as well as provide state initiatives for new concepts which can ultimately spread across the nation.

There is a great deal of concern about the role of local government. From some quarters we hear that the impact of the new federalism threatens the very survival of local governments.

I believe it would be a mistake to expand the direct relationship between the Federal government and the various units of local government.

Such an arrangement ignores the reality that local governments are creatures of the state government.

Each level of government has its role to play—but the state's role is unique. The state created both the Federal Government and the cities and counties, yet in the past, many pressures have tried to squeeze the states out. We are still, however, the United States—the state concept is rooted in the very name of our nation.

As state legislators, we strongly support and welcome the opportunity for the States to reassert the important role they should play in the governmental system of this country. At the beginning the states invented Congress—the Congress did not invent the states.

In the last generation or so, state powers have gradually eroded away. By default, we have allowed the Federal Government to step in, and certainly, those at the Federal level have too often volunteered to take control. The national income tax system is, after all, such an efficient money-gatherer that it has overwhelmed the less efficient taxing system of most states.

Yet in recent years, the states have begun to reassert their independence. We have strengthened our legislative and executive branches to more effectively carry out our growing responsibilities.

In looking at President Reagan's programs, I believe the future is one in which state governments can and will reassert their dominant position in meeting the needs of the people of this country.

President Reagan, in our view, shares this perspective and recognizes the need to accommodate regional and local differences.

On that basis, we endorse the President's policies and have, from the outset structured our own legislative programs to meet the requirements of a policy which sees a diminished role for the Federal Government.

Reductions in Federal grants to state and local governments are coming at a time when many states and localities are financially strapped and facing slow growth, or—as in our state—significant declines in revenues from other sources.

But these reductions have occurred in program areas which were closely tied to Federal mandates and were, at least in our case, anticipated and accommodated.

In fact, reduced Federal funding prompted our lawmakers and administrators to review all human services programs and operations—not just those directly affected by Federal funding reductions.

As a result we were able to set acceptable priorities, shift program funds to continue services which lost Federal support, discontinue non-essential programs and realize in other programs.

An example is the reduction of $3.5 million in the Maternal and Child Health (MCH) block grant. Funding for a number of MCH programs was replaced with state general funds.

In the area of vocational rehabilitation, as another example, $8.0 million in lost Federal funds were replaced with state general funds.

More than actual program reductions and streamlining of services, the reduction of "federal strings" and greater state flexibility had the most positive impacts in improving state/federal as well as state/private sector relationships.

Thus, the State of Washington was able to move to an outcome-oriented review of nursing home services. This change reduced the survey form in use from 85 to 17 pages and focuses on the quality of care rather than the myriad of legal and bureaucratic requirements which had to be met heretofore.

Our expectation is that, while state and Federal expenditures are reduced in this area, service levels will improve as providers are freed from cumbersome regulations of little demonstrated value.

Similarly, the reduction of Federal regulations allows us to deregulate daycare provided in private homes for three or fewer children, with the result that more daycare services can be made available with less government interference.

In another instance, the state will be able to raise the threshold for certificate of need review—saving funds, removing government interference from private sector operations and maintaining the integrity of an important program.

Because of the cost of Federal regulations and requirements, the Legislature, in its 1981–83 budget, eliminated three major Federal match entitlement programs, replacing them with state-funded programs. As a state, we were able to set our eligibility criteria and service levels and ultimately to control costs. Only then did we seek Federal waivers and accept Federal funds to enhance such programs.

Another aspect of the administration's policies we support strongly is that of certain incentives for efficient and effective programs they provide.

For example: States, like Washington, with a Hospital Commission, receive two percent more Title XIX (Medicaid) funds than we would without; or in the area of AFDC funds, establishing fraud and abuse thresholds, and authorizing the collection of overpayments will significantly improve service delivery and reduce costs.

The flexibility granted to the states so far, both through the block grant approach and increased waivers to Federal law, has been a help to our state's ability to accommodate Federal reductions of nearly $400 million.

More can be done, however. Waivers could be used to encourage innovative cost reduction experiments in entitlement programs. For instance, the states need greater flexibility in determining who receives services, the level of such services and who can best provide them.

Co-payments on some services or by certain classifications of recipients may be desirable.

I am confident that further reduction Federal regulations could serve to curb health care costs without impacting essential health care programs.

Block granting could be extended to programs such as vocational rehabilitation and aging services, or specific block grants could be expanded such as in the health block where hypertension screening, family planning and other programs could be accommodated more efficiently.

FEDERAL ENTITLEMENT PROGRAMS ELIMINATED AND REPLACED BY STATE PROGRAMS

AFDC-Employable (AFDC-E) (two parent families with children) replaced by Consolidated Emergency Assistance Program (CEAP) (two months assistance for families with children.)

Federal Emergency Assistance (FEA) (one month assistance for families with children).

Federal Aid Medical Care Only (FAMCO) (medical assistance for low-income working families) replaced by Limited Casualty Program (three-pronged medical assistance program).

As I've tried to point out in my remarks concerning the perspective with which administration policies ought to be viewed, the states need a much greater ability to design programs which meet the specific needs of their own citizens.

There's one final comment I'd like to make.

As the role of the federal government in providing services diminishes, and as citizens continue to impose taxing and spending limits on state and local governments, we must look at alternative means of meeting our needs much more comprehensively and innovatively than we have in the past.

Volunteerism is one viable means of filling the gaps.

We have established and funded programs to provide chore services to our elderly on a volunteer basis, for example, and public school systems are increasing the involvement of local volunteers. Increasing and encouraging volunteerism is part of the commitment we are making this session to meet our responsibilities to the people of the state.

In summary then, my view of President Reagan's efforts is a positive one because I see in it the opportunity for a revitalization of state and local government, and for the reestablishment of an appropriate balance of roles and missions—not only amongst governments, but between government and traditional private structures.

Mr. RANGEL. Mr. Speaker, the President wants to give you a little more help in February by cutting a little deeper, so you can enjoy this rich independence.

How much more do you think we could cut?

Mr. POLK. That is an open-ended question, like when did you stop beating your wife.

Mr. RANGEL. Let me try it another way.

The President has indicated that we are going to have to cut further. Further cuts will be presented to the Congress, and certainly your eloquent testimony indicates that you would want us to support the President and additional cuts.

Mr. POLK. I think that you can make additional cuts. I think one of the imperative things that you must do, if you do that, is that you have to give us the flexibility to use our own creative genius here in the State of Washington to accommodate those cuts and work around them, devise programs which will suit the people of our State and not try to devise programs which will suit the needs of wherever, Nebraska, Oregon or anywhere else.

Mr. RANGEL. Can you give us some suggestions on the revenue enhancement proposals that the administration has for us? We call them taxes on our side of the aisle.

Mr. POLK. I see. I assume you are referring to the excise taxes that have been talked about.

Mr. RANGEL. We are the tax writing committee, and we have jurisdiction over social security, public assistance, unemployment comp. To a large extent the decisions as to whether to support the President or not will be made initially by this committee.

Mr. POLK. I was told this morning by a U.S. Senator that there would be a possibility that we could see some excise tax increases in this coming year, and that there is the possibility that in some programs, the receipts from those taxes would be given back to the States to run for themselves.

If that is done, that is fine. We are going to go through a long period of transition this year, next year and the next couple of years in restructuring the relationship between Federal and State governments and the taxing authority that you have versus what we have, and I suspect it will take a while for us to sort those things out and we will be happy to work with you any time we can.

Mr. RANGEL. Mr. McDermott.

STATEMENT OF JAMES McDERMOTT, RANKING MINORITY MEMBER, SENATE COMMITTEE ON WAYS AND MEANS, STATE OF WASHINGTON

Mr. McDERMOTT. It is a pleasure to be here. I am pleased that you traveled all this way to hear what we think. I think your staff ought to be commended for their choice of witnesses. They could not have had a better set of bookends for philosophy if you had spent a good deal of time in this State.

Thank you for inviting me to speak to you today. Before I comment specifically upon the effects of Federal budget cuts in Washington State, I would like to reiterate a few general comments which I offered before Congressman Pepper's Select Committee on Aging just 8 weeks ago.

The first is that Federal reductions cannot be viewed in isolation. Our State, like many others, is in a severe fiscal crisis of its own. It is compounded, but not solely caused, by Federal budget cuts.

High interest rates, coupled with enormous Federal deficits and an inadequate State tax base, are having devastating effects here in Washington. We have had a State budget deficit of at least $1.8 billion, of which only $400 million is the result of Federal reductions. Our housing and timber industries are in a full-scale depression, and unemployment is much higher than the national average, nearly 200,000 people are out of work in Washington State, and our unemployment rate is expected to reach 11 or 12 percent by February.

Since January, 1980, we have sliced $1.5 billion in State and Federal dollars from our State budget and we still face a deficit of at least $300 million.

Almost every State is experiencing some withdrawal of Federal funds from their coffers. But, thanks to Republican control of both houses of its legislature as well as its governorship, Washington is being served a double dose of Reaganomics. First, we are being forced to absorb approximately $400 million in outright reduction of Federal moneys this fiscal year. These reductions often trigger the familiar ripple effect of concomitant withdrawal of State funds from those programs and agencies financed by a State/Federal matching formula.

But then, in addition to these cuts, Washington gets a double whammy: The policies of its Republican leadership dictate that not only will withdrawn Federal moneys not be replaced with State funds; rather still deeper cuts are being sought in State expenditures. So Washington citizens are being forced to swallow two doses of Reaganism, and the effects are destroying our State economy.

Second, our cities and counties are in no better shape. They have exhausted their revenue sources (primarily the property tax), slashed basic services, and a few are now paying their bills with interest-bearing warrants. For many local governments, block grants are nothing more than chunks upon which to chop and cut. They view pending actions in State capitals and Washington, D.C. with deep suspicion. They wonder whether the New Federalism is not simply a scheme for dismantling social programs that benefit primarily poor and minority citizens. They question if the new game in intergovernmental relations is not one of "keep the buck and pass the responsibility."

Third, across-the-board budget-cutting does not constitute thoughtful reform of Government programs and services. A policy of cut, block and cap does not address the issues of inadequate access to health care, the need for welfare reform, or the growing problems of crime and prison overcrowding. We must examine the critical role of public investment in our economy, from maintaining an adequate public transportation system, to providing educated and skilled workers, to caring for the elderly and disabled. If we allow that infrastructure to deteriorate, where will we be? We need a Government that is less obtrusive, but not less effective.

Now, let me turn to the question of how recent Federal reductions have affected our State. I would like to concentrate my remarks on the effects upon children and young people under age 25. As a child psychiatrist, State legislator, father of two children, and author of our State's Basic Education Act, this area is of special concern to me and, I know it is to you.

At the risk of oversimplification with numbers, some statistics are in order to illustrate the magnitude of what has happened. In three critical areas—public welfare, social services and education—the combined effect of State and Federal budget cuts have been most damaging to children.

PUBLIC WELFARE: INCOME MAINTENANCE AND MEDICAL ASSISTANCE

In the area of public welfare, the following changes have occurred: 1,500 children from 6,000 families with an unemployed, but employable adult in the family have been denied any income assistance through elimination of our AFDC-employable program. This policy was implemented despite our high unemployment, deep cuts in CETA, WIN and other job training programs as well as persuasive evidence from Oregon that it will encourage 30 percent of those families to break up and go back on welfare for much longer periods of time. The result will be no savings to the State or Federal governments.

You heard the secretary today say in this State so far it looks like about 20 percent, so you are forcing 30 percent or 20 percent of those families to break up to get any kind of assistance. There will be no savings to State and Federal government by that kind of action.

Second, 45,000 families with 150,000 persons (39 percent children of preschool age) have suffered an 11.8-percent reduction in AFDC cash grants totaling $129 million ($66 million-State, $63 million-Federal). This was the second grant reduction in less than a year, resulting in a 33-percent loss of purchasing power and a 1-percent increase in actual grant levels in 3 years, without adjusting for inflation.

General assistance and emergency assistance have been eliminated for 8,400 unemployed, but employable single persons or childless couples, 21 percent of whom are under age 21. Thus, the State has no program, other than food stamps, for assisting unemployed single people or childless couples who do not qualify for unemployment compensation or have exhausted those benefits. As of today, 57,000 Washington State residents have exhausted their unemployment benefits and 1,400 more are exhausting them each month, so there is no program.

Some 870 unmarried, unemployed pregnant women per month will be denied any income assistance, other than medical benefits, during the first 5 months of pregnancy. Regardless of one's position on the abortion issue, this inhumane policy will force these women to face the cruel choice of abortion or inadequate nutrition and housing in the first critical months of pregnancy.

A $1,500 deductible is now charged to needy two-parent families, single persons or childless couples who are uninsured and cannot pay acute emergency medical costs. The current hospital collection rate for such costs is 10 percent, resulting in increased bad debts and higher premium costs for all other State residents. That means that there will be between $70 and $80 million in the next 2 years in uncollectible debts for hospitals, which will be dealt with through the hospital rate commission which will pass it out to the private people who are buying private insurance.

Finally, preventive dental care for 12,000 poor children and migrant workers has been eliminated. This program was highly successful and produced documented savings in the prevention of much costlier emergency dental care. They save $400,000 by wiping out that program. You would think that the priorities would be to deal with the health care needs of children.

Thus, in the area of public welfare, Federal budget reductions have fostered public policies in Washington State which encourage the breakup of the family unit, provide incentives for abortion, reduce basic living standards for dependent children, escalate private health insurance rates and deny access to preventive dental care.

SOCIAL SERVICES

Not only have income and medical benefits been slashed, but supportive social services for needy families and children have been reduced in the following manner:

$1.3 million has been cut from local diversion programs for troubled youth; the planned addition of badly needed residential treatment beds for psychiatrically-impaired children has been reduced by $900,000; an arbitrary, 18-month maximum length of stay in group homes has been imposed for children (non-offenders) from age 6 to 17 who are unable to live with their own families; title XX cost-shared daycare support for the working poor (non-AFDC) has been eliminated; $3.5 million has been reduced from the highly successful work incentive program (WIN), resulting in the closure of 5 local offices and termination of 87 staff positions. For every dollar invested, WIN has succeeded in returning $3 to the State in reduced welfare costs by finding employment for welfare recipients.

The question has been bandied about whether or not it will be picked up at the local level. In the county in which you are, as nearly as we can tell the social service impact of the combined Federal and State, $45 million has been taken out of this town. United Way has raised $22 million.

Anybody who thinks the private sector or the voluntary agencies or the church or anybody else is going to pick it up needs to look at those figures and explain to me how it is being picked up.

Crisis-oriented homemaker services, designed to prevent institutionalization for clients of children's protective services, have been reduced by 57 percent.

Coupled with income maintenance and medical assistance changes, these social service reductions will increase institutionalization of juveniles, deny needed psychiatric care, promote welfare rather than employment, and reduce the State's ability to assist in serious family crises.

EDUCATION

In the education area, deep reductions have been made in every program: $51 million was cut from basic education funds to local school districts; $38.5 million, was reduced in State support of school transportation costs. During the 1982–83 school year, the State will reimburse local districts for only 55 percent of their transportation costs, although they promised 100 percent.

Tuition increases averaging 70 to 75 percent were imposed upon vocational education and higher education students; enrollment has been reduced by over 7,000 at vocational education institutes, and by 9,000 at community colleges; in addition, 500 faculty will be laid off at these institutions; $42.5 million has been cut from the budgets of State 4-year colleges and universities.

These reductions will limit educational opportunities for young people, restrict course offerings, greatly increase student costs, and seriously reduce their ability to prepare for the future. It is a more complicated society every day and education has got to be the key for it.

SUMMARY

What, then, do all of these numbers really mean?

Individually, the reductions I have cited vary in their direct effects upon children; but, collectively, they are having devastating impact upon our efforts to maintain family units and educate and train our young people. The so-called safety net is an illusionary palliative. It is nothing more than a verbal ploy which allows our State and national policymakers to ignore acute human need and suffering while justifying deep human service cuts, promoting excessive tax cuts, and encouraging unconscionable levels of military spending. At the same time, the new national public policy fosters investment in wasteful corporate mergers and tax credit purchase agreements, while ignoring the absence of investment in our aging industrial plants and eroding public institutions.

Our youth are being neglected and often abused. They are unemployed at a rate twice that of any other age group, and they are committing 45 percent of the Nation's crime. The poorest are undernourished or abandoned, while many others are finding vocational and job training opportunities denied them. Suicide is now the second leading cause of death among young people aged 15 to 25. In many communities, our public schools are disintegrating; in others, they are a public disgrace.

I personally ask you and your colleagues in the Congress to reexamine your budget priorities and the public policies they exact. Further human service budget cuts must not occur. Tax cuts and increased defense spending must be delayed, reduced, or eliminated. Public and private investment strategies must be targeted to produce more jobs, better transportation systems, and improved urban centers. Our public institutions—schools, mental hospitals, and health services—must not be allowed to crumble.

The economic policies of the national administration, duplicated and extended in Washington State, are ruinous. It will take decades to restore what we are destroying and generations to reconstruct what is being torn apart.

Certainly, nobody on this side of the table or nobody on your side of the table feels that every tax dollar has been spent properly.

It is like an automobile, if it will not start in the morning, you have got a couple of options, throw the car away, or do some fine tuning, check everything, and in my opinion, this administration is throwing away the car.

This Nation has realized enormous gains in education, in social justice, in environmental protection, in economic opportunity, and in civil rights over the past two decades. The vehicles for these achievements have essentially been Federal programs, funded with public moneys and administered truly in the public interest. To abandon them now will damage this country in ways far more difficult to measure than dollars, and far more costly.

Worst of all, we are forcing those in our society who offer the most potential for its future, its children, to pay the stiffest price of all. We are denying them hope.

Thank you.

I will be happy to answer any questions.

Mr. **Rangel**. The Chair cannot accept displays of emotions from the audience one way or the other. I see, Senator, that we are going to have a difficult time trying to convince you that these cutbacks in services to the sick, unemployed and the aging are in the long run good for them.

Mr. **Hance**. Senator, you heard the testimony of the speaker. I don't know if you were here when the secretary of the department of social and health services Mr. Gibbs, testified. He indicated that their budget had increased from a little over $2 billion to about $2½ billion, and I asked if this was a 20-percent increase. He said it was a little less than that, a 15- maybe 18-percent increase.

Speaker Polk said there had been an increase in the overall State budget of around 20 percent in real terms.

In your testimony, on page 4, you talked about the number of children dropped from AFDC payments and the number of families that have been dropped.

With those great numbers having been dropped, where is that additional money for the social and health services programs going?

Mr. **McDermott**. Essentially the only money that has been put into the budget has been inflationary increases in vendor payments, nursing homes, and in areas like that, but in the areas of income maintenance and medical assistance, it has been only vendor rate increases.

There has been no real increase in the buying power of people who are on public assistance.

Mr. **Hance**. You are saying the cut has been in the increases. They have not had an increase, but in constant dollars——

Mr. **McDermott**. Over the last 3 years, public assistance has had no significant increase.

Mr. **Hance**. Above inflation?

Mr. **McDermott**. In actual dollars for a family of four, they are not presently receiving the same amount today that they were on July 1, 1981.

They are not even receiving the same number of greenbacks, so there has been an actual reduction in the actual dollar amount they are carrying away.

Mr. **Hance**. Don't you have a lot of constituents that have the same problem because of inflation?

Mr. **McDermott**. Everybody is struggling with that, but we are talking about people who are trying to live on $300 and $400 a month in an urban society at a time when things have gone up 10 and 15 percent a year.

Everybody is struggling with it, but we are talking about people who are just barely subsisting, and there are others who have been flat dropped and there is nothing for them.

Mr. **Hance**. In looking at the figures in both of your testimonies, and you were right. One of you said there were a couple of bookends that really have different views, and many of the witnesses we have seen do.

I would appreciate a summary from both of you, on the 20 percent increase in your budget.

Mr. McDERMOTT. We added almost $100 million to the nursing program. That is money for people who are in nursing homes, but we cut the programs that try to keep people out of nursing homes, chore services, those kinds of things, so there are some very fundamental social policy shifts that were made, but big money went into doctors and hospitals and nursing homes whereas the money that goes out in direct grant assistance to people to buy food and housing has actually been reduced.

Mr. HANCE. Thank you.

Mr. Speaker, would you like to respond?

Mr. POLK. There have been a number of programs that have been revamped along the way. I understand Senator McDermott didn't like to see those programs revamped or go away.

We started last biennium with a $400 million surplus in this State and like every situation where there is a legislature with money, they will find a way to spend it.

We had a surplus. We spent all that $400 million and created 28 brand new programs 2 years ago, all kinds of little programs.

We started this biennium with the State agencies asking for $1½ billion more than we had coming in. This was far in excess of what they were used to spending, but they are asking for more. You are aware of that kind of treatment on the Hill as well.

We had to say no to an awful lot of them and start looking at ways to use their money more efficiently.

We had to reexamine every program in the department of social and health service, general government, and in education, and we did a thorough job of reevaluating programs. We terminated some programs and combined some programs.

The senator brought up a program, chore services, a perfect example of the kind of situation we found ourselves in with a program that started out, and I applaud its basic thrust and goal to keep elderly people out of nursing homes.

They will do better living in their home environment and we can all agree with that and yet the situation we found ourselves in was that we had appropriated $28 million for the biennium for that one particular service.

By the time 18 months had rolled around, the State had spent all of that money and needed $16 million more just to make it through the final 6 months of the biennium.

Why? We had to go out and start examining how that kind of a program was run and we found a lot of reasons to be very concerned about it.

There were highly publicized cases that wound up on the front pages of newspapers and we found that the problem with some of the folks was not that they were not needy, but that their families had decided, well, gee, we don't have to take care of them anymore. We can turn them over to the State.

One highly publicized case on the front page of one of our local newspapers was exactly that kind of a situation where their family turned them over to the State.

We had to cut back a little bit on the growth of that program, but the program still wound up with more money in real dollars than it had before. Senator McDermott said we eliminated and obviously that is not so.

I don't agree with a whole lot he said, but we are spending more money than we spent last biennium, and if I could say that a thousand times, I suppose I would, because I don't read it anywhere in our newspapers and people ought to know it.

Mr. **Rangel**. Mr. Gradison.

Mr. **Gradison**. I would like to thank the Senator and the Speaker for their really eloquent statements.

In the statement by Senator McDermott, he concluded by saying, "With regard to our failure to spend more money for various of these programs, we are denying a hope."

I sense that one of our panelists was concerned about the hope for the taxpayer, and the other the hope for the people who receive the benefit of the program.

We are responsible for balancing these, and for recommendations to the House of Representatives for essentially 100 percent of the revenue programs at the Federal level and 40 or 50 percent of the expenditures at the State level, so we have to look at both sides.

I want to comment, first of all, about the AFDC payments. In the State of Washington, monthly payments for families rank sixth in the Nation per recipient.

The average annual payment here, as of a year ago, is about $380 for a family in Washington. In my State, the State of Ohio, it was $251.

I am not saying the $251 is the proper amount, but it is somewhat unrealistic, where the average for the Nation is $100 a month below the Washington payments, to expect Congress to increase the payments to help raise the level here in the State of Washington.

If the increase takes place at the Federal level, it will be used to bring up the lower States, such as my State.

Mr. **Anthony**. Put into the record the amount that the State of Arkansas does pay, so it will be clear that there are sharp differences of wealth among the various States and the fact that various States can afford to do more for their children and for those people who need assistance.

Mr. **Gradison**. Arkansas, $146, Ohio, $251.

Washington, $380.

I have one question, and I want to direct it to the Senator who started by pointing out that the State budget deficit was at least $1.8 billion, of which $400 million was the result of Federal reductions.

The bulk of the problem was the State budget. I thought the thrust of your statement was we should reorder priorities at the Federal level and send more money to the State of Washington.

How do you feel your own State should go about raising funds to help close the gap there? Have you supported State tax increases to help pay for this?

Mr. **McDermott**. Yes. Let me comment on that, because it is hard to talk about the narrow subject that you are talking about today without broadening out a little bit at the whole Federal priorities at the moment.

As long as you hold the interest rates high, and kill the housing industry in this country, you are going to have the State of Washington in serious trouble.

One of the things that came out here was the question, is the unemployment rate higher in Seattle. No, in fact, in the rural areas, it is worse, because our woods are totally shut down in this State, and unless there is a change in the housing question nationally, the State of Washington is going to have a very difficult time recovering.

The second thing is, as long as the Federal priorities are to have an uncontrolled defense budget that goes to $1.5 trillion over the next 3 years, suggested by the President, and the money is shifted out of domestic programs, and used as the reason we can't put more money into social programs, because we have to spend it on defense, when we have that kind of imbalance, all of the programs will be hurt where there have been programs to help moderate income and lower income make it in this society.

Mr. **Gradison**. How do you expect us to get interest rates down when the Federal Government is running a deficit on the order of $100 billion a year? If we cut the budget in half, all it would do is balance the budget, and it wouldn't draw another dime for the programs you are talking about, if we cut the defense budget in half.

Mr. **McDermott**. If we could put our people back to work and get the country back on its feet, we could deal with things at the State level. I like the idea of running the programs down here. I have been frustrated many times in the legislature trying to adjust what we are doing with what you say we have to do.

I could give you an example. We had a handicap bill 6 or 7 years before the Congress ever got into it, and then we had to rewrite our whole program to fit what you were up to. That made me angry, and I would be glad to get you off my back, but you have to change the national priorities so that there is work in this State.

And in the whole Northwest, really both Oregon and Washington, you will hear the same thing, because our timber industry is dead, and we are really in trouble unless something is done about interest rates, and I know the Feds——

Mr. **Gradison**. I don't see how we are going to get interest rates down by spending more money overall, and if your reordering of priorities is to shift funds from one pocket to the other, we are not cutting expenditures. If we cut the rate of defense spending to spend more on social programs—and that may be a good idea—it will not help the interest rates or the housing industry in the State of Washington.

If we shift $50 billion into human services programs from defense, we still end up with the same amount of deficit. How does that help to bring down interest rates?

Mr. **McDermott**. There is no simple answer to it, but it is clear that the course that is being taken nationally now is not working. It is getting worse.

In every indicator in the State of Washington, Reagonomics is worse. People who voted for him are now saying, "My goodness, I wanted a little less government, but I didn't want to lose my job."

I expect the President to strike a medal that he will send out to all the companies that have gone bankrupt. We are up to 19 percent bankruptcies, higher than the average that we have had in the past, and that is what is happening here, and you can look on any street corner and see it, so unless there is some change at the national level in how the country's fiscal direction is going, we are not going to come out of it here.

We would like to take care of it, but we have to have people working.

Mr. **Gradison**. We have to spend our way out of it?

Mr. **McDermott**. No, we want to work our way out of it.

Mr. **Anthony**. I think what makes me proud to be an American, it is amazing when two distinguished members of the Washington State legislature can hold two diverse views and sit side by side in a public meeting. We have one Arkansas in the Union, and I find we have two Washington States.

I think that is really wonderful, because that is really the purpose of these field hearings.

Mr. Speaker, I take it then from your testimony that you are not for revenue sharing, and that you would like it abolished?

Mr. **Polk**. That is correct. I would like to see the revenue be available here, so we could decide our own tax structure and be able to do it ourselves.

Mr. **Anthony**. If the President comes out with a new master stroke of a speech Tuesday, and if he talks about the New Federalism, and that New Federalism is that he is not only going to have a revenue sharing trust fund for the States and localities, but he is also going to raise taxes through making people who drink beer and smoke cigarettes pay a little bit more money for it so he can turn that money back over to the States so they can spend it.

I take it you will not be supportive of that?

Mr. **Polk**. It will depend on what the actual program looks like, and if it is a matter of the Federal Government being the collector, that is one thing.

If it is a matter of coming into the Federal Government and hassling around with it in Congress and deciding how much of it are you going to appropriate back to us, that is a horse of a different color.

What part of Arkansas do you represent?

Mr. **Anthony**. Twenty-four rural counties in south Arkansas, heavily timbered, high unemployment because of high interest rates.

Mr. **Polk**. I have relatives all over Arkansas, so you better be kind to me.

Mr. **Anthony**. I am not through yet.

Actually, Arkansas can sympathize with Washington State. Because we are heavily agriculture- and timber-based. My district happens to be the largest.

You are Weyerhaeuser Co., and Weyerhaeuser happens to be very large in the State of Arkansas.

That is one of the highest unemployment areas in my State, but you disturb me just a little bit because if I understand you correctly, you are willing for me, a little old bitty Congressman from south Arkansas, to raise the taxes on the backs of the rich or the poor, and to send that money back to you without any strings so that you can spend it as you see fit, and something strikes me as basically unfair when you want me to make all of the tough decisions so you can spend all the money.

Mr. **Polk**. I didn't mean to say I want you to do that.

I am saying if you don't want to do it, give us the flexibility, get out of that taxing program entirely, so that that is totally clear for us. Do one or the other. Either you do it, or we will do it and take care of our own programs, but I am not saying I want you to take the heat for us, because we are willing to take the heat that we think is necessary here.

Mr. **Anthony**. I am glad to hear you say that, because one that obviously supports the President, and maybe being the one that is going to be in the process of going to be in opposition to his most recent innovation that he is going to come up with, my guess if I had it the best of both ways, I would give you the strings and the taxing method also.

The Under Secretary of the Treasury, Dr. Norman Ture, said after the tax bill was enacted that the administration had basically returned the tax sources to the States and localities, and that that had been substantially accomplished.

Do you have sufficient avenues to increase revenues in the State of Washington so you can offset the loss of revenues that would come if we decided to terminate revenue sharing?

Mr. **Polk**. We could find ways to raise revenue any time we have to do it. There is a great reluctance on the part of legislators and the part of the general public to raise increased revenues.

There will be a time that I feel quite certain if the President's program moves ahead where you withdraw from programs, and we have to raise those revenues, that we will do it. The mechanisms are there.

Mr. **Anthony**. I did not mean to interrupt. If we do not do any more than what we have already done, we have passed the tax code, Mr. Ture says that is all we need to do to allow the States the opportunity to have additional revenue.

Do you agree or disagree with that?

Mr. **Polk**. If you do not do anything else right now, preface it with that, then we have ample means to raise the revenue here as it stands right now.

Mr. **Anthony**. I would like to close with one comment. Arkansas is predominantly a Democratic State, although we do have a Republican Governor and two Republican Members of the House. As we have gone around these field hearings, we have heard a lot of people say the only way we can get ourselves out of it is to cut spending, and as President Reagan says, you do not tax and spend, tax and spend, and I must say I find it right refreshing to come into Washington State where the house is controlled by the Republicans, and the senate is controlled by the Republicans, and the executive branch is controlled by the Republicans, and I look down, and I see that the sales tax was increased 1 percent, and that you are here testifying before the Ways and Means Committee bragging about the fact that spending had increased 20 percent, very refreshing.

Mr. **Rangel**. Mr. Pritchard.

Mr. **Pritchard**. I have a lot of questions, but we are getting behind, and I think we ought to move along.

Mr. **Rangel**. Mr. Lowry.

Mr. **Lowry**. I compliment you for raising that 1 percent. It was a tough thing to do.

I happen to think, because it is so difficult to project revenues on a State level in a declining economy, that you may need to show some real courage, and I really want to encourage you to do that.

Perhaps there still has to be more work done on the projections, but it is extremely difficult in an economy such as we have to accurately predict, and I want to encourage you to again have the courage to step up and be ready to raise taxes to avoid significant additional cuts on the social levels.

Thank you very much for coming. You are both friends, and I like you both. I agree with one of you.

Mr. **Rangel**. On behalf of the committee I sincerely thank both of you for presenting your views and, Mr. Speaker, we will do all we can.

We have Hon. John Saven, director, Office of Management and Budget, city of Seattle, and the Honorable Dolores Sibonga.

Both of your statements will be entered into the record. Proceed as you see fit.

STATEMENT OF JOHN SAVEN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, CITY OF SEATTLE, WASH.

Mr. **Saven**. Good afternoon, Mr. Chairman and members of the committee. I am John Saven, director of the Office of Management and Budget for the city of Seattle. Since Mayor Royer is in Washington, D.C., today, he asked me to testify on his behalf.

If this is your first visit to Seattle, I am sure you will be impressed with the natural beauty of the region and the overall appearances of good health.

Through closer examination, you will find that we, too, have our own difficulties generally similar to the maladies facing other American cities. Although our economy has diversified from the Boeing bust of 1971, we are struggling with stagnation in the wood products industry, curtailment in fishing and tourism, and an overall softening of the economy. The State's unemployment rate exceeds 10 percent, while Seattle's approaches 8½ percent.

There are other people who can do a much better job of describing our economy. Still other speakers, such as council member Sibonga, can touch on many of the activities where your committee has jurisdiction—income security, health, and social services. I will direct my comments in another area of interest to this committee—public finance and the impact on local government of what is commonly called Reaganomics.

As I understand the basic premise of this program, the Federal Government will systematically eliminate or curtail its involvement in a number of key domestic program areas. State and local governments must now decide what programs and activities will be continued and how they will be financed. These reductions are coupled with an accelerated depreciation plan to stimulate business, and tax cuts for individuals to encourage additional work and productivity. Somehow, the combined effects of these strategies allegedly will overcome inflation and high unemployment through economic growth.

I believe this approach to our problems is unacceptable. It may or may not impact inflation and unemployment. Undoubtedly, it will extract a pound of flesh from those who can least afford to pay, while improving the overall condition of those who can. This is too high a price to pay. And it will be sold without a full understanding of the meaning for our communities.

First, I would like to argue that local governments in Washington State have little to no flexibility to respond adequately to drastic departures in traditional levels of Federal outlays. We have no legal authority for a corporate or individual income tax. All of our taxing authority for basic operations is capped by the State, other than the general and utility business and occupation taxes. The general B. & O. tax is a gross receipts tax, bearing no relation to profits. A grocery store with less than 1 percent profit margin pays the same tax on $1 million of business as a furrier with a 20-percent profit margin. In 2 years, we have doubled this tax on many sectors of our economy. Further increases add to the incentive for businesses to relocate in the suburbs.

Last year, we raised our utility tax rates from 8 percent to 9 percent. People with the least ability to pay spent proportionately more of their income for taxes on utility services required for their survival.

Out of desperation, we also raised parking meters from 10 cents per hour up to 60 cents per hour.

In the 1982 budget, we abrogated 367 positions and reduced service levels in all basic city activities. We even asked our Chamber of Commerce to analyze our budget for further reductions. The chamber now understands the need for greater local tax flexibility.

To summarize this point, we need not argue whether or not Seattle has the will to fund on a local level programs severed from the Federal Government. We simply do not have the legal authority to raise revenues to respond to the situation.

Second, I would argue that massive Federal pullouts in regional and local capital improvement programs place a tremendous strain both on the city government and people who pay for these improvements. We all know of property tax revolts throughout the country. We know pitifully less about the pending public outrage when the physical facilities around us simply collapse.

Seattle is a progressive city. Last year, our voters approved a $48 million low-income elderly housing bond issue to construct 1,000 living units. A countywide parks committee has identified over $178 million in needs in rehabilitation and enhancement over the next few years. We are also completing work on a potential $70 million general purpose bond issue for street, bridge, and facility repair. These expenditures are not for frills, but the minimal care and preservation of our public improvements.

How far can we go on relying upon voter-approved special bond issues for these functions financed by property taxes? A few years ago, Seattle was called the most livable city. If local governments cannot adequately finance repair and replacement of capital plant, the national prize eventually may be for the "only livable city."

We cannot afford to throw away the great investments the public has made in our cities.

We are stretched to the limit on what we can legally and practically accomplish locally. The region needs a new major sewer treatment plant. Based on changes to the Clean Air Act, our local share of the program will jump from 10 to 20 percent to 50 to 60 percent. By 1987, sewer rates will quadruple rather than double for everyone, regardless of income. Transit fares were just raised 20 percent, to offset increased costs and declining ridership. What happens when our transit agency loses $10 million annually in UMTA section 5 operating assistance? Higher fares will result, and ability to pay will not be a foremost consideration.

If the President's New Federalism is played out according to the grand design, I foresee four unavoidable consequences:

One, many individuals who really need governmental services will not receive them.

Two, local governments may be unable, legally and practically, to respond.

Three, when local government can respond, the burden will be borne disproportionately by those with the least ability to pay.

Four, people or businesses with the most ability to pay will receive a larger tax break.

I saw a December 16 study in the New York Times, showing the net effect of Federal spending cuts and tax cuts on household income. The family earning less than $11,500 loses $24, while the family making over $47,800 gains $140. While I cannot comment on the accuracy of the work, the thrust of it does coincide with the overall experience I witness in Seattle.

I had always hoped someday that the State and the city would restructure our tax system and pattern it after the Federal system, a tax system which is more equitable and reasonable in allocating tax burdens. When I hear talk of increases in Federal excise taxes, and as I more fully understand changes enacted last summer under the Economic Recovery Tax Act. I realize that we may catch up with the Federal tax system simply by keeping ours the same.

Thank you for hearing my testimony. I would be glad to answer any questions.

Mr. RANGEL. Thank you.

Councilwoman Sibonga, we have your full statement. It is in the record. You may proceed.

STATEMENT OF DOLORES SIBONGA, COUNCIL MEMBER, CITY OF SEATTLE, WASH.

Ms. SIBONGA. We would like to welcome members of the committee to the Emerald City on behalf of my colleagues on the Seattle city council and on behalf of the people of this city.

We have been dubbed the Emerald City, and believe me, we have the heart and the courage and the brains to proceed to find our way through this malaise that we find ourselves in, but we may need a little Federal magic which we hope you will endow us with.

In the relatively brief time that I have with you, I would like to touch on the major topics in my written statement, and they deal with the New Federalism, housing, health, refugees, and employment and training programs.

Mr. Rangel. Can you hear in the back?

Ms. Sibonga. As an elected official, I find myself daily on the firing line. Recently in the city of Seattle, we have received cards, letters, and telephone calls about the elimination of an approximately $500,000 program from the police department, the horse patrol.

I go to attend classes at our little community center on Beacon Hill, and I hear some youngsters may not be able to continue their classes, because we, the city, have imposed an additional 50-cent-per-class fee.

I recently heard from a counselor who was dealing with the family of a young Vietnamese man who committed suicide at age 15, because he had too many burdens to bear being the head of his family.

Day in and day out we hear about the effects of Federal budget cuts, and I am also one who is overwhelmed by the apparent ease and speed upon which the Federal Government struck out on a supposedly new and bold direction to solving our domestic problems through a combination of supply-side economics and State's rights thrown in under the rubric of the New Federalism. We will soon find ourselves living again as we did before.

The President says that we are even going back to the time of the Constitution where defense is our single and highest Federal responsibility. However, in my reading of that historical document, I believe there are other functions, that is, insuring domestic tranquility and promoting the general welfare. These are the areas with which I am most familiar, and consequently shape my view of federalism and national purpose.

New Federalism implies that we turn to simpler times when supposedly the States were actively involved in meeting and solving domestic problems, but New Federalism fools no one by expanding new independence for local communities without the resources to function accordingly.

There must continue to be a concerted effort, a partnership, if you will, with every level of government, Federal, State, and local, and the private sector in meeting pressing domestic problems in an effective and responsible way.

It is my belief that the case for continuing and sustained Federal role in the domestic program areas is compelling and can be borne out by local examples and circumstances right in this Nation.

Refugees, this provides a classic example of how Federal priorities and decisionmaking have directly affected our local resources. Local governments were not consulted when the Federal Government embarked on the national defense postures and foreign policy decisions that brought a new wave of refugees to our shores, and yet the impact of these Federal policies has been felt most directly and immediately here at the local level.

The health and welfare of the refugees in our city and State are, therefore, most appropriately a matter of continued Federal Government concern and responsibility.

You have heard the statistics before, I believe, but let me repeat them. The State of Washington has some 31,000 Indochinese refugees, and approximately 20,000 are in the Seattle—King County area. Washington itself is ranked third in the Nation as to the number of Indochinese——

Mr. Rangel. Madam Councilwoman, we are going to have a problem because of the length of your testimony since a large number of witnesses that we have scheduled have not yet testified.

Ms. Sibonga. I understand, and if I could just be allowed a few minutes, I appreciate it.

Mr. Rangel. Of course.

Ms. Sibonga. We are third-ranked in the Nation as far as Indochinese, but that ranking may be deceptive, because we are in fact experiencing a secondary migration.

The influx of new city residents has brought a dramatic increase in the need for services and placed additional demands on our tight resources.

At the local level, we in local government have in the past 10 years put considerable of our own resources into bilingual services, health and social services. There is a direct drain upon those resources, and we are even finding that there is a feeling of competition among the new Indochinese population and others. It should not be in this great country of ours that we have to see people scrambling for a handful of crumbs.

Let me go on to health. Our community has suffered substantial cutbacks in Federal funds for health services, and the Seattle—King County Department of Public Health budget alone, we are losing $505,000 between 1981 and 1982.

There are direct funds lost in title V maternal and child health services and family planning title X programs.

As a city councilperson, I experienced one of the most devastating actions I had to take when I had to vote for severe cuts in the Seattle—King County public health budget.

It was really heart-rendering to have to do those things, but we have to prioritize.

In housing, there are drastic cutbacks in Federal housing activities, and the provision of housing assistance to low-income people has been a Federal responsibility for almost 50 years.

The present administration is close to abandoning that traditional commitment. We understand that HUD may renege on commitments it makes to cities in the section 8 NSA program. We have committed community development block grants to buy sites for low-income housing.

Employment training, I know this committee is not directly in charge of those funds, but you are interested in the entire economic picture. I sit on the board for the local region, and we in fact will probably see a 50-percent cut in training programs over what we received for 1981.

I do not know what we are going to do, because I am very doubtful that the public sector will pick those things up. I hope you will spring your Federal magic on us in Seattle and help us through these very trying times.

[The prepared statement follows:]

STATEMENT OF DOLORES SIBONGA, COUNCILMEMBER, CITY OF SEATTLE, WASH.

Good afternoon, Mr. Chairman and Members of the Committee. I am Dolores Sibonga, Councilmember of the City of Seattle.

I welcome you to the Emerald City. We suggest you will find here, courage, brains and sinew in need of a sensitive and responsive federal government. Thank you for traveling to the Northwest to hear our views on the effects of the President's economic program.

I understand that you have already had some opportunity to see firsthand what is now occurring in this region's economy. Boeing's struggle with sagging aircraft sales, a City wrestling with revenue shortfalls and growing public needs, and a community increasingly overshadowed by hardship and misfortune. These are the outward signs of change. Whether this change is positive for all of us as the President and others have so forcefully argued, we will be the first to know. As you know, Seattle is a port City, and we look daily for the rising tide of prosperity but feel, instead, the ebb of a recession.

As an elected official, I am now thrust into a swiftly changing arena of new economic and human realities. I am also one who is overwhelmed by the apparent ease and speed upon which the Federal government struck out upon a supposedly new and bold direction aimed at solving our domestic problems. Through a combination of "supply side" economics and states' rights thrown in under the rubric of the "New Federalism", we will soon find oursleves living again as we did before. I am not sure if the Administration means the prosperity of the post war boom period, or the rough and tough existence of the 20's and 30's.

Unfortunately, it is not that simple. We can never return to times that we have known before. This city is very different today and so is the country and the world in which we live.

Yet President Reagan says we are even going back to the time of the Constitution. Accordingly, common defense is our single and highest federal responsibility. In my reading of the Constitution, there appears to be other functions, such as to ensure domestic tranquility and promoting the general welfare. These are the areas with which I am most familiar, and which consequently shape my view of federalism and national purpose. When one considers the pace in which the Federal government under the new Administration is trying to shed many of its traditional functions—housing, health, social services—it is alarming. It tries to rid itself of its liabilities under the guise of states rights.

New Federalism implies a return to simpler times when supposedly the states were actively involved in meeting and solving domestic problems. If such a time did exist, it involved circumstances with fewer people, less technology, more alternatives to select from and consequently, a real chance to solve the problem. However, today our world has grown smaller. Any given local community is pressured from ten different directions both within and without, resulting from social and economic tensions unheard of a century ago. "New Federalism" fools no one by expounding a new independence for local communities without the resources to function accordingly.

There must continue to be a concerted effort, a partnership, with every level of government—federal, state and local—and the private sector in meeting pressing domestic problems in an effective and responsible way. Being a staunch supporter of "fiscal responsibility" throughout my tenure as a city councilmember and watchdog of the city budget, I have always emphasized that any program must be handled in an effective and responsible manner. If a program fails, it must be dealt with forthrightly. However, to abandon the entire effort appears to be the act of those who were not so committed to this partnership from the beginning.

My view of responsible federalism is shared by the examples this collaborative effort, including the Federal government, in areas such as refugee assistance, manpower training, housing and health programs. Each is one in which the Federal government has been, and is, an important and essential partner in our local programs. It is my belief that the case for a continuing and sustained federal role in the domestic program areas is compelling and can be borne out by local examples and circumstances anywhere in this nation. Here are but just a few examples to add to that record.

REFUGEES

Before discussing our city's housing, health and training needs, there is another area that cries out for a strong and visible partnership of federal support—that is the plight of the Indochinese refugees.

This provides a classic example of how federal priorities and decision-making have directly affected our local resources.

Local governments were not consulted when the Federal government embarked on the national defense postures and foreign policy decisions that brought a new wave of refugees to our shores. Yet the impact of these federal policies has been felt most directly and immediately here at the local level.

The health and welfare of the refugees in our city and state are therefore most appropriately a matter of continued federal government concern and responsibility.

The State of Washington has some 31,000 Indochinese refugees and approximately 20,000 are in the Seattle/King County area. Washington itself is ranked third in the nation as to the number of Indochinese people. This ranking may itself be deceiving, as it is hypothesized that we are the recipient of a large secondary immigration.

This influx of new city residents has brought a dramatic increase in the need for services and placed additional demands on our already tight local resources. But what is even more tragic and depressing is the fact that other communities in need of these social services are beginning to see themselves in direct competition with the new Indochinese population. The strain and tension on the street is evident when there is fighting among the groups in local food bank lines. It angers me to see any people having to scramble for a handful of crumbs.

The federal cash and medical assistance provided through the Refugee Resettlement Program has been an essential support to our refugees. Thus, we are deeply concerned over the Department of Health and Human Services' proposed changes which would reduce our cash and medical assistance reimbursement from 36 months to 18 months. If the new policy were effective as of March 1, 1982, as proposed, approximately 8,000 refugees in the State of Washington would be terminated from cash and medical assistance; some 5,000 of these refugees are in Seattle/King County.

Our refugee population is typically comprised of intact families; thus, most do not qualify for federal assistance under Medicaid or Aid to Families with Dependent Children. Medical benefits are generally not available in the entry level jobs that many refugees hold, and most families do not have the resources to pay for medical insurance or medical bills. We believe that a federal three-year commitment of medical assistance is essential to the health and welfare of our refugees.

In addition, we have experienced a significant loss in the social service funds available from the federal Office of Refugee Resettlement. Our allocations for the first two quarters of Fiscal Year 1982 have been 50 percent lower than our Fiscal Year 1981 funding. This has forced dramatic reductions in essential services aimed at helping refugees become self-sufficient and contributing members of our community: English language instruction; employment training and placement; information and referral services. We also used these funds to support refugees through counseling and mental health services.

Recently the Department of Health and Human Services' proposed project grants to aid areas highly impacted by refugees and Cuban-Haitian entrants. However, in Fiscal Year 1982 funds will be available only for areas impacted by Cuban-Haitian entrants. Without supplemental funds, no grants are available for areas such as Seattle which are higher impacted by Indochinese refugees.

With the financial problems our own State is facing, we cannot replace the loss of federal funds to refugees. In addition, other community resources are at a low ebb, with their own funding losses and the high rate of inflation. These cutbacks come at a time when all of our citizens are having difficulty finding jobs and affordable housing. Our current forecasted unemployment rate is 11.5 percent. Without adequate support, we cannot expect refugees to function effectively and become productive members of our community.

HEALTH

The community has suffered substantial cutbacks in federal funds for health services. In the Seattle-King County Department of Public Health budget alone, we are losing a total of $505,000 between 1981 and 1982. The majority of the funds lost were from the Title V Maternal and Child Health Services (a 31 percent cutback) and Family Planning Title 10 programs (a 25 percent cutback). Additional losses were in the area on Aging grant for services to the elderly. Funding cutbacks have resulted in the elimination of all social work services and in depth counseling, the reduction of pharmacy and clinic support personnel and the elimination of these services will have a major effect in the Maternal and Infant Care, Children and Youth, TB and Family Planning clinics. Local funds have been reallocated to mitigate the service delivery cutbacks but nevertheless we are anticipating an overall reduction of 10-15 percent in clinical services available through the Department.

The reduction in Seattle-King County Department of Public Health's service delivery capacity comes at a time when other community resouces are being curtailed, and when unemployment and associated loss of health insurance is on the rise. Of particular concern is the elimination of the Community Health Board program that bought insurance for 2000 low income people in Central and South Seattle. Health Department and other low cost community resources cannot take on new clients when their services are being curtailed. Community clinics have been hard hit by the loss of 35-50 CETA workers over the last three years and gradual reductions in National Health Service Corps support. The two community clinics that emphasize services to the elderly have been also hit by a reduction of approximately $200,000 in Area on Aging funds. While local action has preserved the Seattle Public Health Hospital, withdrawal of federal support will affect availability of health care for seamen, retired military and low income community residents. Medicaid cuts include the elimination of all coverage adult dental care, restricted benefits for pregnant women, and reductions in coverage and reimbursement for hospital and physician fees. Cutbacks in Medicaid have resulted in more pressure on publicly supported clinics just at the time when those clinics can least absorb the demand.

HOUSING

One of the most serious concerns we have in Seattle, stems from the drastic cutbacks in federal housing assistance for low income families and the elderly.

Providing assistance to low income people so they can live in decent, safe and sanitary housing, has traditionally been a federal government—not a local government—responsiblity. We are rapidly losing our stock of low income housing downtown and other areas throughout the city. Our emergency shelters are overflowing. It is not uncommon for people to break the law solely so that they can sleep in the jail on a cold night. It is estimated by a local expert that excluding any secondary migration figures, 200 refugees continue to arrive to Washington each month, all needing shelter.

Seattle citizens from all walks of life are deeply concerned about our housing needs and are committed to addressing them. But we cannot do it alone. The provision of housing assistance to low income people has been a federal responsibility for almost fifty years. The Reagan administration has all but abandoned this traditional commitment.

Housing programs were cut drastically in the 1982 budget. We understand that the Administration is going to propose a recession of the meager resources that are available for rehabilitation and new construction program; these are vital to a city like Seattle. Public housing operating subsidies have been cut below tolerable levels. We also understand that HUD intends to renege on commitments it made to cities for the Section 8 NSA program. We have spent millions of dollars on our Community Development Block Grant funds to buy sites for low income housing and to provide assistance to developers to make it economically feasible for them to use federal rehabilitation programs. Because we already spent half of our Community Development Block Grant funds for housing, and expect that grant to be cut by at least $2 million this year, we cannot spend more to substitute for the loss of federal housing funds. There are large categories of unmet housing needs in our community; the situation will grow far worse without federal help.

EMPLOYMENT AND TRAINING

I understand that CETA is not a program for which this committee has direct responsibility, but because of the committee's involvement with overall economic issues, I want to briefly address the employment and training reductions we have received and what they mean here.

The Seattle/King County area is served by a manpower consortium funded through DOL-CETA funds. This consortium provides employment and training services for our CETA eligible citizens. We estimate that we have at least 74,000 CETA eligible people in Seattle/King County and as you can well imagine with all the other federal cuts, the number is rapidly increasing. In Seattle we received, including PSE and Youth Titles, $25 million in CETA funds in Fiscal Year 1980 and $19.2 million in Fiscal Year 1981.

While we have not received our final fiscal year 1982 allocations from DOL, a situation which is causing us considerable programmatic confusion, we believe that when they finally arrive they will show reductions of over 50 percent of what we received in fiscal year 1981. As a member of our manpower consortium's executive board, I am familiar with the services our CETA funds have provided and I simply cannot justify such large reductions in the program. In a time of high unemployment, we are anticipating 12 percent rate statewide in February, we have to work much harder to get our disadvantaged employed. Certainly sending them out job hunting untrained or undertrained is not going to give them much of a fighting chance for jobs when they are competing with more highly trained people. Somehow a vast reduction in employment and training funds right now seems like a very counterproductive idea.

At the end of fiscal year 1981 in our adult training programs we had 1,000 participants and 311 training these people. Now when things are really tight and highly qualified people are settling for jobs that they are substantially overqualified for, we have to cut our training programs by over 50 percent. Where will our CETA eligible people find employment? Will they be forced to turn to illegal means to sustain themselves and their families? I do not know the answers right now but I fear that soon we all know them.

I have just highlighted briefly several areas where our community depends on the active involvement of the federal government to address important domestic needs and problems. I cannot envision a future when it is not involved in maintaining these basic human services. In fact, without such assistance, we will be unable locally, even with State help, to fill the vacuum.

In response to a question about potential problems with the "New Federalism", the President recently suggested that if citizens don't like the way things are, they can "vote with their feet." That is not the way we do things here in Seattle. As national policy, it is not only overly simplistic, but a callous answer to a heart wrenching problem. As a local elected official, I now look to Washington, D.C., for a realistic national policy on how local officials should handle this dire situation.

Mr. RANGEL. We thank you very much for your help.

Mr. HANCE. I have one question, Mr. Chairman. As Director of the Office of Management and Budget, what is your budget this year?

Mr. SAVEN. Sir, we have a general fund budget of approximately $182 million plus approximately $10 million in general revenue sharing for 1982.

Mr. HANCE. What was it in 1981?

Mr. SAVEN. Approximately $160 million, plus the $10 million of general revenue sharing. That was adopted prior to midyear budget reductions.

Mr. HANCE. A little over 10-percent increase?

Mr. SAVEN. Yes, there are certain changes between the 1981 and 1982 budgets, such as a new jail contract at the county which distorts that and some changes in debt service.

Mr. HANCE. You had a lot of shuffling of priorities?

Mr. SAVEN. Yes.

Mr. RANGEL. Mr. Gradison.

Mr. GRADISON. Mr. Chairman, I really do not have any questions. I would like to comment with regard to one of the important points raised in your statement, Mr. Saven. I am saying this as a former mayor in Cincinnati: Your problem between you and your legislature regards home rule. We have a very broad home rule under our constitution in that we can make whatever mistakes at the local level with regard to taxation, but I do not really see how the Federal Government is going to solve that problem. That is something between you and your State legislators.

Mr. SAVEN. I think you are absolutely correct that much of the problem I described here relates to Seattle and the State legislature. We have no taxing authority. If we want to raise taxes, it will be on a gross receipts or on a utility or occupations tax, both of which are very, very regressive forms of taxation, but my point to you is if we are looking at further reductions in terms of Federal outlays, be it general revenue sharing, or something else that goes into our city coffers, if the question is on a local level, are there actions that the city council and mayor can take? The answer is the only thing they can do is raise the gross receipts tax or to ask property taxpayers to absorb an even larger load, and that is a problem.

If we had more tax flexibility, we would be in a much better position to respond either directly to Federal changes or exchanges as they flow through the State government.

Ms. SIBONGA. May I also respond? I would like to make the point that the Federal moneys that come through are extremely important to us. Two examples. Community accountability program, the youth service bureaus that deal with youngsters who are accused of crimes was formerly funded by the Federal Government. It is no longer, that money is no longer available to us, and therefore the city council passed a year's transition budget for that program which amounts to something like $100,000, assistance for victims of crime——

Mr. GRADISON. LEAA?

Ms. SIBONGA. Right, but we prioritized and picked that program up with general fund dollars, because we felt those services were extremely important, so that the lack of Federal dollars mandates us to look at our programs.

Mr. GRADISON. That cutback was an example of prioritizing at the Federal level which began before President Reagan was even nominated to be President.

That started years ago when questions came up about whether the LEAA program was achieving the objective that the Congress had in mind when it passed it.

Serious questions were being raised, and that program got the ax before a lot of the other changes came along for better or worse.

Mr. RANGEL. Any further questions?

Mr. ANTHONY. Just your position on Federal revenue sharing, for or against it?

Mr. SAVEN. Very definitely for it.

Ms. SIBONGA. As am I, Mr. Anthony.

Mr. ANTHONY. If in 1982 in order to help balance the Federal budget, or, well, we are not going to be able to balance the budget, but we may be able to try to bring that deficit down below $190 billion, but if there is a proposal on the table to terminate revenue sharing for the States and for the localities, you are saying that due to the lack of legal authority to have the revenue measures that you would need, it would really put you in a bind?

Mr. SAVEN. The bottom line is if you want to assume one way or another that the city is held harmless, you have to ask yourself how fair is the system of taxation or whatever you use to get our $10 million, be it a tax on cigarettes, beer, gasoline, a general tax, whatever.

From our perspective, those are a less desirable system of revenues than receiving back from the Federal Government some portion of the tax dollars that we pay through your income tax.

Mr. RANGEL. Mr. Weyerhaeuser, you are next. We thank you for adjusting your schedule to share your views with us.

We will enter your full statement for the record if you care to highlight it, or however you want to proceed.

STATEMENT OF GEORGE WEYERHAEUSER, PRESIDENT, WEYERHAEUSER CO.

Mr. WEYERHAEUSER. I would like to go through a substantial part of the statement, if you have the time.

Otherwise, I could make it very brief.

I would prefer to, since I was pleased and honored to be asked, invited to make a statement, I would like to go through a portion of it.

Mr. RANGEL. No question about that. We want to hear from you.

Mr. WEYERHAEUSER. I am George Weyerhaeuser, president and chief executive officer of Weyerhaeuser Co., which is among the United States' leading timberland and forest products companies. We are the second largest industrial employer in both Washington State and Oregon, and have major production and distribution facilities throughout the Nation. We are probably in the top 10 in the State of Arkansas.

Although our industry and our company are substantial victims of the current economic difficulties, we have fully supported the President's and the Federal Reserve Board's economic programs, and continue to do so. We take this position out of interest in the long-term fortunes of our company, our industry, and the economy. The administration's program will provide a climate in which increased savings will trigger expanded productive capacity and expanded employment, even though the short-term impact is painful, indeed.

We must save, and invest in, competitive new capacity to create new jobs and increase our output. In my view, a return to the previous policies which brought us to this temporarily painful period of correction would be disastrous.

Let us focus on the malady that the administration, the Congress, and the Federal Reserve are trying to cure—an inflation rate that had reached double digits and one that, without drastic corrective measures, threatened to move into terminal hyperinflation. The free world has had an opportunity to view the impact of hyperinflation on economies in the past. Inevitably, the cycle ends with the toppling of the existing political structure, with a loss of individual freedoms, and with the imposition of authoritarian regimes, either after economic collapse or in an effort to ward off such collapse. The United States has no immunity from such a scenario—and that is why I believe that we must stay on a corrective course.

This Nation entered the 1980's having experienced years of deteriorating productivity and a savings rate that was the lowest in the developed world. Our capital markets were severely crimped. With the Government consuming an ever-increasing share of the capital pools which were being created, reaching 21 percent in 1981 and more than 30 percent expected in 1982. Investment in our basic industries had fallen, and the United States was becoming increasingly noncompetitive in world markets. We were alarmed that that inflation rate on capital goods—basic machinery and equipment—was surpassing the inflation rate for the economy as a whole. As a result, it was apparent that potential earnings from many proposed new facilities would never pay back the initial investment—so such investments were foregone or placed on the shelf. This simply means that we were facing both accelerating inflation and increasing unemployment.

Since our economy was in serious condition, we should not have expected that the cure would be immediate, or without serious discomfort. What is important is that effective treatment is now being applied.

The forest products industry has been uniquely affected by the pain of this transition. Its largest customer is the new-housing construction industry, a large credit-using part of our economy. Housing, and the wood products industry, have, since the fall of 1979, been in the longest and deepest slump since the Great Depression. Lumber production in the United States last year was the lowest since 1945, with the industry operating at less than 70 percent capacity. Prices, in real terms, are at post-World War II lows. Approximately one-fourth of the work force in the industry is affected by long-term or permanent layoffs, and as many or more are working part-time.

Weyerhaeuser is viewed generally as a wealthy company—wealthy in the terms of its raw material resources, its manufacturing facilities, and its people. But let me assure you that we, too, are severely affected during the transition. Because of the integration of our facilities, our development of export markets, and our self-sufficiency in timber, we have been able to keep most of our facilities running, and our work force in total has been somewhat less affected than that of the industry.

But, we, too, have had mill closures, mill downtime, and shortened work weeks at many facilities, resulting in layoffs of both hourly and salaried workers. Our managers and other salaried workers have been placed under a salary freeze, and our hourly wage rates have been and will be progressing at rates at or under inflation levels. This means that in real terms employee compensation is declining. With the recession now affecting pulp and paper markets as well, conditions in this industry in the short term will get worse, rather than better. So I want you to know that our people share some of the decline and hardship that I am sure you are hearing about.

Our company has been noted for, and proud of, its commitment to investment in forest development and mill modernization and for its efforts to maintain employment and community stability. Even in the 1974–75 housing recession, we were able to maintain nearly full production and employment. Thus, some of the actions that have been necessary in this cycle have been extraordinarily painful to our people and the communities in which we operate.

We have, however, been able to maintain a strong investment program, expending about $1.5 billion for new and modernized capacity during 1981 and 1982, creating several hundred new permanent jobs and supporting several thousand jobs in construction.

Counter to the trend, we opened two major new facilities in this State alone during the year. In part, the changes in the tax laws that occurred in 1981 are helping us maintain this level of investment, and these investments, in turn, will significantly improve our competitive position in world markets, as well as domestic ones, when recovery comes. And a better competitive position translates directly into higher levels of operations and increased job availability.

In my opinion, commentators who categorize some of the recent tax changes as "raids on the Treasury" have it backward. The Treasury has no prior claim upon the earnings of the American people; it is the people who decide, however imperfectly, through their representatives, how much of their income they choose to allocate to the Government.

Mounting Federal deficits have contributed greatly to inflation, resulting in bracket creep and higher individual income taxes. Taxes were being assessed on nominal capital gains which were in real terms actually capital losses. Businesses have been paying taxes on nominal income that is greatly overstated, by tying depreciation allowances to historical costs which are grossly inadequate to keep facilities maintained in current dollars.

Fundamental changes were required to correct these tax distortions or biases of inflation.

I believe that we, as a a nation, understand well that there is no free lunch. Most of our citizens realize that Government spending depends upon taxes paid by individuals, upon corporate taxes paid ultimately by consumers, upon Government borrowing that squeezes industrial and private borrowers out of the capital markets and forces up interest rates—or upon Government overprinting money, which, through its inflationary impact, hurts all of us, and leads to the condition we are now in. Given that recognition, and given the continuing public perception of governmental inefficiency and waste, how can the administration and the Congress lessen the impact of the transition we are now undergoing?

The major economic concern, if we are going to complete this transition successfully and achieve the desired long-term beneficial impact, is the Government's financing requirements. The size of the deficit, both current and in prospect, will soak up to as much as one-third of available capital, will keep interest rates high, and substantially erode the beneficial impacts of the tax cut.

Thus, every effort must be made to get serious about spending cuts. We must not only actually cut expenditures; we must lay out a credible midterm fiscal course that deflates the deficits and along with them the inflationary expectations that are holding long-term real interest rates at unprecedented levels. Serious commitment to this task—that real rate of return is double anything that this country has normally experienced; no wonder we are not getting anything done—despite the political difficulty, is crucial to restoration of noninflationary solid growth in our economy.

Given the public perception of waste, I would urge that your spending reduction efforts focus not just on particular programs or agency budgets. I submit that no areas of the Federal Government should be viewed as sacrosanct—and we must not only ferret out areas of our loss and waste, but we must also avoid trying to undertake more programs than we can reasonably afford or manage, which we have been guilty of in the past. I believe firmly that we must strengthen our defense capability, which has eroded dangerously. But I do not believe that we can or should do everything at once in an effort to accomplish this objective.

Similarly, entitlement programs demand closer review. I claim no expertise as to how to proceed in this area, but let me cite what appears to me to be an obvious opportunity. While the average national wage increase is approximately 8 percent, the built-in "overindexation" of Federal pensions, et cetera, will increase at an 11-percent rate. Surely this merits some direct examination.

Although its impact was not immediate, ERTA is, in my view, the most positive tax package ever enacted. The long-term health of the housing industry, and thus of the forest products industry, depends upon an increase in the national savings rate. Where the Tax Code historically has penalized savings, it now provides incentives for them.

The combination of the inflation rate and the Tax Code formerly discouraged productive investment by industry. The inflation rate is coming down, and the new tax provisions provide stimulus for such investment. We are just beginning to see the flow of funds into IRA's and other savings channels. One hopes that this flow will become a torrent.

If it does, Federal deficits will not be as acute a problem as they appear today. Japan, which is one of this region's major markets, has regularly incurred deficits which are a much greater portion of gross national product than ours—but Japan has relatively low interest rates, and its inflation rate has fallen to 3 three percent. While we have had the developed world's lowest savings rate, Japan has had the highest. The capital pool established by these savings has created the world's leading industrial growth rate, has financed new housing starts at levels higher than the United States—in a country with half our population—and has still allowed the financing of governmental deficits.

Meanwhile, since 1970, Federal credit demand in the United States has grown at a rate three times as fast as have available savings. With ERTA, this country has moved to increase the savings and investment rate. The Congress and the administration have attempted to decelerate the runaway Federal demand on the credit markets. In the 1982 transition period, further steps must be taken to reduce spending levels to speed the effective impact of the savings increase.

Restoring this country to economic health will continue to be painful during this period. I in no way discount the impact upon individual citizens and disadvantaged groups who may need public help and support. Geographical regions such as this State have been differentially hurt. I am painfully aware of the disproportionate impact of the transition upon entire industries, particularly ours. But, the cure must continue. It would be not only unwise but cruel to make these sacrifices in vain—they are justified only if our Government holds to its course and restores long-term health in our economy.

That process must continue if we are to return to a solid base of growth and opportunity in the decade ahead.

Thank you very much.

Mr. RANGEL. Thank you.

Are there any questions from the members?

Mr. Gradison.

Mr. **Gradison**. Thank you, Mr. Chairman.

First of all, I would like to thank our witness for what I consider to be a very excellent overview of the problem which we have before us as a committee. The midterm course is really critical to the future, and I don't suggest it is going to be easy, but it is an issue that we have got to face.

I have a specific question which has an impact upon your industry.

Assuming the fixed-term mortgages are not totally a thing of the past, what level would such mortgage rates have to go to before it would, in your judgment, have a material effect upward in new housing construction?

Mr. **Weyerhaeuser**. There is a certain conventional wisdom which I am suspicious of. If long-term interest rates on fixed mortgages could get back into the 12- to 13-percent range, we would be able to effectively restore the purchasing power for perhaps two-thirds of the fallback that has already occurred from the peak in housing, but I think there are a lot of other factors that have been forcing up the cost of houses, and money is the principal one. But we also have some major land and regulatory problems that have tended to push houses out of reach, and we believe that we have now reached a stage where there are something in excess of 1.5 million purchasers of houses that have been, in effect, squeezed out of the market.

We are underbuilding at a tremendous rate, and that backlog is building up; so we are going through one of the biggest busts after a fair boom, and the backlogs are continuing to grow at a very substantial rate.

We are probably somewhere around three-quarters of a million underbuilding in a year.

Certainly we are not going to get there with fixed rate mortgages at 17½ percent, which is where they are today.

Mr. **Gradison**. It is hard for me to see how we are going to get down to 12 or 13 unless we have more optimism.

It is typical for long rates to be sticky and stay high in an environment like this, but, as you indicated, we have never seen anything like the spread, the real rates, the real long rates.

Mr. **Weyerhaeuser**. I think the underlying inflation rate is getting down to close to 7 percent.

If you took normal relationships of the real rate of interest over inflation, we ought to be looking at long rates that are in the 10½- or 11-percent range, but we may not get back to that real rate of return, real interest rate, because I think we have introduced so many pressures and uncertainties into the economy that people are afraid.

They are afraid to lend money and are expecting a lot more inflation. We have had 15 years of it, so I think there will be an inflation premium built into these rates for some considerable period ahead. If you add 1 or 2 percent to the normal real rate or the observed inflation rate, that is about the best we can hope for, which will still leave housing hung up in there.

The credit markets will not be unclogged until we get substantial relief from the Treasury in there.

They are coming every week into the credit markets, $40 billion of Government borrowing per quarter, coming right into a credit crunch.

Mr. GRADISON. Thank you, Mr. Chairman.

Mr. RANGEL. Mr. Hance.

Mr. HANCE. In earlier testimony, the city and State people testified the city budget increased by 14 percent and the State's was about 20 percent. What type of spending under the last year have you and your company, what has your budget been like, and also you mention your salaried employees and your management. What type of increases?

Mr. WEYERHAEUSER. In our major wage agreements, we have several 3-year contracts, so some of them are on the third, and some on the second, or some on the first year.

They have been averaging somewhere in the neighborhood of 8 to 8½ percent.

Similar increases up until this year in wages and salaries in the salaried work forces, and now we have put a freeze on the higher levels of salaries, and we are laying off people, and the rates in the new contracts in terms of hourly wage rates are going to be coming down from the 8½-percent level down into the 6- to 7-percent level, probably. That is what I meant by progress somewhat under the rate of inflation.

Mr. HANCE. Thank you very much.

Mr. RANGEL. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

Welcome before the committee, Mr. Weyerhaeuser. I feel like I know you. You have a long, strong presence in my district in that you own a lot of timberlands there, and many operating facilities, and have a very good reputation, I might say.

I have read in recent months about the fact that we should not be concerned about deficits of $60, $70, $80, and into $100 billion, because, as a percentage of our GNP, it is still smaller than it has been in the past.

The point is that those deficits and the financing of those deficits should not crowd out the private capital, and the competition should not be created to the extent it would dry up the—well, do you have any response to those statements?

Mr. WEYERHAEUSER. It is a businessman's response, not an expert, but my reaction goes something like this: It is a matter of supply and demand. I don't think those deficits are too large in relationship to the GNP, but that is not the issue. What is the total aggregation of total private and public demand against supply?

The savings rate is way too low. A combination in the private sector of business and private credit demand—we are spending too much and in a sense we are not saving enough. Now, if consumer expenditures stay up where they are, and we are trying to get a business expenditure increase in order to produce more jobs and more capacity, more supply and knock down inflation, that has to come from somewhere.

Those of us that say the Government is crowding out say it in the context of a 5-percent overall savings rate and the flow of funds that are available to corporations, you aggregate that and look at all the credit demands; we can't continue to sustain the standard of living, the purchasing power we have and renovate our productive capacity through increasing investment at the same time that the Government is increasing its absolute pressure on that market, even though it is only, it is as I said, it is in a manageable portion of the GNP.

Mr. ANTHONY. You are not concerned about the Federal Reserve Board monetizing the debt. You are concerned about the Government in competition to finance the deficit on a dollar-per-dollar basis, to finance the deficit?

Mr. WEYERHAEUSER. I am in favor of the Fed's policy of gradually decreasing the money, because I think over the long range, as long as we continue to produce more money than we do goods, we have cinched long-term inflation.

I don't believe the way to take care of the problem is to print money, so if you are given that, then you must take what available credit is there against a degree of credit restraint, and you have to increase savings and back the Government out of that stream of savings to some degree, I believe.

Mr. ANTHONY. Again, if I correctly interpret what you are saying, if we monetize the debt, it will be bad because expectations of inflation come back, interest rates go high, but if we run historically high deficits, competition will do the same thing?

Mr. WEYERHAEUSER. Yes.

Mr. ANTHONY. We have got to get that deficit down.

Mr. WEYERHAEUSER. It is terribly important that the direction that is set is credible, both monetary and the direction of the deficit, and that some direction be made.

Mr. ANTHONY. If you would permit me one question, very critical question for the industry:

You have taken a position. You state in your testimony that lumber production in the United States last year was the lowest since 1945, with industry operating at less than 70-percent capacity.

Yet we have in this country the ability from domestic-grown timber to be able to service the entire lumber market. Yet we are losing on a yearly basis more and more of our domestic market to Canada—to the extent that they have about 40 percent of our domestic lumber market.

I just wonder if you have any thoughts about whether or not we should do like Japan and impose some type of tariff or distribution structure, so it would make it more difficult for those imports to come into the United States, so you could open up another plant in the State of Washington, so we could employ some of these soon-to-be 12-percent unemployed, or would you rather keep it on a free-trader basis?

Mr. WEYERHAEUSER. I am a free trader.

The problems in this case are lack of demand, effective demand, and if we solve the fiscal and monetary thing and get it in reasonable shape, our industry is going to have plenty to keep it occupied, and we are busy planting trees.

We have a great deal of confidence that the fundamental demand is going to be there, and we believe we can compete against Canada or anybody else, but we can't if the final demand is down 40–50 percent.

We got to solve this credit problem.

Mr. **Anthony**. My family is in the timber business. We manufacture, and we don't have nearly the capacity that you have. We are just struggling along, but I must admit that it bothers me when we can raise a tree and cut a board and nail it up as good as anything we can import into this country, and we can sell it at the same price or better, and we are not concerned about fuel-efficient automobiles and whether or not they are better or last longer, are cheaper, it gives me some concern when we got that much unemployment and got the housing market slump.

Thank you.

Mr. **Rangel**. Mr. Pritchard.

Mr. **Pritchard**. A concern I have is the time factor, because you have a problem here of perception and expectation in this country of wanting to turn this thing around, and how long is it going to take to turn it around, and how long will the process hold for it not being turned around?

Mr. **Weyerhaeuser**. I am every bit as concerned as you, I believe, and my concern rises to a level of, we are in a very, very dangerous period, and unless this turns fairly soon, I believe we not only have inexorable political pressures, but very, very severe economic dislocation.

This is stretched a long ways already.

I believe that the fundamentals are in place, the inflation rate is coming down very rapidly, that interest rates should follow.

The expectations are not there because there is not a credible program out there, and that has an awful lot to do with what the Federal Government is doing fiscally. People do not believe that they are going to change their habits, and they do not believe spending is going to be brought under control, and they do believe the credit markets are clogged.

Everybody is staying short. They are hedging and they are scared, and we are on the verge of a major recession here, if we are not in one.

I think it can turn around if we could get a reasonable set of conditions out there on the fiscal side and have some progress, some progress toward that reduction in that deficit, and I don't believe that has to be down to one-half of where it is.

If you had a credible course for a 3-year plan, and I understand it is easier to say than to have people believe, but that would be the primary thing that could turn this around by midyear—if we had progress on that point.

Mr. **Pritchard**. And if the people believed we were going to stay on course?

Mr. **Weyerhaeuser**. Perhaps I am too optimistic. I think 1983 and 1984 could see a very, very major set of changes. That is contrary to conventional wisdom on Wall Street.

I do believe it won't happen if we keep the pressure on these credit markets continuously from the Treasury.

Mr. **Rangel**. Mr. Lowry.

Mr. **Lowry**. You made a lot of comments I definitely agree with.

Do you know what the difference is in the amount of money this Nation is going to spend on defense this year, and what Japan spends on it?

Mr. **Weyerhaeuser**. I have an order of magnitude. It is gigantic both in absolute and in percentage of GNP, four or five times.

Mr. **Lowry**. You have an underlying word in your prepared statement that said all areas of the budget must be looked at to be cut. Would that include the defense budget?

Mr. **Weyerhaeuser**. Absolutely. I don't believe that the Defense Department ought to be insulated in any way, shape, or form from the disciplines that the rest of us are under. I think it is necessary to take a very hard look. That is after I said I agree with the objective. I believe we should be building up, but we can't afford to do everything at once, and there is a risk we must take. If we don't, our financial well being, our country's progress, is going to be severely hindered; so that that is, if not equally important, it is certainly right up there.

Mr. **Lowry**. I want to thank you very much.

Mr. **Rangel**. Mr. Weyerhaeuser, on behalf of the full committee, we thank you for adjusting your schedule to share your views with us.

The next panel, Ms. Kay Thode, from the Seattle Urban League; Ms. Chris Pratt-Marston; Mr. Keith Putman, department of human resources; Mr. Benjamin Eide, Children's Home Society; and Mr. William Hobson.

Ms. Thode.

STATEMENT OF KAY THODE, DIRECTOR OF HEALTH AND WELFARE, SEATTLE URBAN LEAGUE

Ms. **Thode**. Before I begin my prepared testimony, I would like to respond to some of the comments.

I would like to point out that the data provided by the Washington State Research Council, which stated that the Washington State welfare is rated 6th highest in the Nation was dated prior to the severe cuts enacted in November and March, and we currently, in October of 1981, the latest data available, ranked 10th in the Nation for a family of four. We ranked eighth in per capita income.

One of the consequences of terminating the AFDC program for two-parent families was that 15 percent of those families ended in separation or divorce, 2.8 times higher rate of separation than was current prior to termination of that program, which was initially set up to preserve families intact and not give fathers the terrible choice of leaving their families so that their children could be fed.

Because many of those families would have qualified for AFDC's regular program in the first place, 26 percent did go back on the rolls.

I would point out that one of the reasons so few people seem to have come in for assistance is that due to publications in the newspapers outlining the cuts that have been made, people stop coming to welfare offices, and one of the other side effects of the rapid changes that have taken place in these programs is that the workers have been programed to err on the side of caution. If they make errors in giving people assistance who do not ultimately qualify, they will raise the State's error rate. They generally err on the side of caution, and there have been many instances where people were denied assistance.

With that, I will proceed with my testimony.

Washington State has been struck by the triple disaster of an eroded tax base, an economy verging on depression, with 200,000 unemployed workers and Federal cuts in excess of $400 million. Those 400 million in cuts, 280 million of those dollars were cuts in public assistance grants, medical care and day care to public assistance recipients in this State.

The impact of the combination of Federal and State cuts is increasing poverty, crime, and human misery.

Time does not permit me to spell out the effect of the reductions made to meet the $400 million Federal reduction in our public schools, the University of Washington, the health care system, or child welfare services. I will focus my remarks on the impact of the 21 AFDC amendments enacted in the Omnibus Reconciliation Act, Public Law 97-35.

Those amendments reflect enormous contradictions between stated policy and reality. We hear constantly that Congress and the administration believe the solution to the welfare problem is to put people to work. Yet Congress enacted several amendments to AFDC which reduce the earnings incentive, impose a 100-percent tax on earnings after 4 months; and guarantee that in spite of working full time, a mother and her children will live in dire poverty.

I cannot believe that the Members of Congress understood when they enacted the 150-percent lid on earnings that they knew this would deny any help in the form of subsidized day care, medical care, or any cash supplement to families of three in 35 States where the parent earns less than the $581 a month gross earnings which a minimum wage job provides. That is based on July 1980, which was the latest I could obtain by calling the Office of Health and Human Services.

To add insult to injury, the earned income deduction allowed for food stamp eligibility was reduced from 20 percent to 18 percent.

In Washington State, 150-percent of the standard of need is $437.50 for a woman with 1 child in 34 counties. If I may spell it out for you, what this means is that after paying work expenses a woman with two children will have a net income of $361.12, less than a welfare grant income. An average of 2,900 families in Washington State will be terminated monthly because of the 150-percent lid.

Lest you think a welfare grant is an extravagant amount, let me remind you that welfare grants in this State, which ranks 10th highest in the Nation in grants for a four-person household, fell 112.1 percent behind the increase in the cost of living between July 1969—the last time grants were fully updated—and July 1981.

In 1969, when the Heinemann Commission visited Seattle to determine the extent of poverty here, welfare grants for a family of four were $50 above the poverty level. They are now $190 a month below the poverty level, and the poverty level has fallen to 32.7 percent of median income in 1979.

A welfare grant for the typical three-person AFDC family is $408 a month in 34 counties and $440 in five counties. It allows: $145.65 for food; $48.50 for clothing; $29.85 for heating fuel; $34.60 for personal and medicinal supplies; $10.75 for water, sewage, and garbage; $22.70 for household supplies; $9.50 for electricity; and $106.45 a month for rent in 34 counties in Washington State, and $138.45 for rent in the other five counties, including King County, in which Seattle is located.

Rents for a one-bedroom apartment in King County range from $265 to $370 a month according to a January 10, 1982 article by the real estate editor of the Seattle Times.

This means that the family must use its $135.65 food money for rent and try to eat on the food stamp bonus which at most is $111 for a welfare family of three in King County. That is 40.5 cents per person, per meal. Even with food stamps and with the $16.25 a month low-income energy assistance, a family on welfare in King County has $105 a month less for three persons than a family with a poverty level income who also get food stamps and energy assistance in recognition of the inadequacy of such an income.

In the face of 10- to 11-percent unemployment, it does not make sense to force mothers of young children to choose between the threat of a workfare job at no pay or of working full time to take home less than a welfare grant, or to deprive the children whose mothers cannot get jobs to suffer chronic malnutrition with its attendant effect on learning ability.

Both the National Academy of Science study, "Towards a National Policy for Families and Children," and the Carnegie Council report, "All Our Children: American Families Under Pressure," agree that no child should grow up in a family whose income falls below the median income for even a brief period of time and should not fall below the poverty level for even a short period. Current welfare grants in Washington State now amount to 27 to 29 percent of the Washington State 1980 median income. To force children to survive on such incomes is to program inevitable failure for most of them who live ill clothed, ill housed, and ill fed.

Another contradiction is evident between the decision to deprive pregnant women of any funds for food, clothing, and shelter for the first 5 months of pregnancy and the oft-heard rhetoric about the sanctity of the family and human life. This policy will almost certainly lead to the birth of a low-weight baby whose chance of developmental deficits is increased.

Of all the 21 AFDC amendments, this one perhaps makes the least sense. It will lead to much greater long-term costs and is driving some distraught young women to taking overdoses, others to have emotional breakdowns, and others to opt for abortions. This affects 890 women a month in Washington State. Repeated efforts to get the Washington State Legislature to provide general assistance to these women for the first 5 months of pregnancy failed. We look to Congress to repair the damage this amendment is doing.

Nor can I believe that Congress intended to teach youngsters that it does not pay to work, or at least that it does not pay to be truthful by amending the law to require that the income a youngster earns from a part-time job he or she got in order to be able to have a school activity card or a winter jacket will be deducted from the family's welfare grant.

Another outcome of the AFDC amendments and the regulations promulgated to implement them will be the termination from assistance next month of 9,000 Indochinese refugees, about half of whom have less than a sixth grade education, and still speak little English, hence having little chance of getting jobs in the current job market here. Surely this is not consonant with the policy which brought these people here in return for their assistance to our country.

Another contradiction is evident between the rhetoric about local control and giving the States more flexibility and the amendment which requires States to adopt Federal resource limits for AFDC. Washington State updated its resource limits for the first time in 30 years in 1980 in recognition of inflation and of the fact that it is more difficult for people to get off public assistance if they have to become destitute in order to qualify for help. The new resource limit amendment is an unwarranted intrusion into State affairs.

One of the most pernicious amendments is the option to States to count food stamps and housing subsidies as income. Washington State legislators rationalized cutting back grants last November and again in March on the grounds that the cut would be replaced by additional food stamps. To turn around and now count food stamps as income would be a cut on top of a cut. This option would affect a minimum of 4,500 cases a month.

It is truly inconceivable that Congress would consider further reducing what is already such an intolerably low standard of living that millions of needy children are suffering from chronic undernutrition with consequent reduction in intellectual capacity and failure to learn.

To summarize, women who have tried to get off public assistance because it provides so little it is a guarantee of destitution, are being shoved back deeper into poverty because of the 150 percent lid you passed and because of the reduction in earned income disregards, and the 4-month limit. Those who are terminated are becoming desperate.

Young pregnant women are confronted with the bleak choice of begging and scrounging for food and lodging for 5 months, or of having an abortion.

Youngsters whose families are on AFDC are learning that it does not pay to be honest. Refugees are being confronted with the prospect of destitution in a strange land, where they have not yet mastered the language.

States are being denied the right to set their own resource limits.

Those who have only a welfare grant to live on may have that little again reduced because in-kind benefits may be counted for the poor, although they are not counted for the rest of us.

The right to strike is being undermined.

All in all, the chief victims of the AFDC amendments are infants, children and their mothers. The long-term costs of these amendments will be all too evident in the not too distant future.

[The prepared statement, with attachments, follows:]

STATEMENT OF KAY THODE, DIRECTOR OF HEALTH AND WELFARE FOR THE SEATTLE URBAN LEAGUE

Chairman Rostenkowski, Members of the Committee:

I am Ms. Kay Thode, Director of Health and Welfare for the Seattle Urban League. Thank you for the opportunity to testify.

Washington State has been struck by the triple disaster of an eroded tax base, an economy verging on depression with 200,000 unemployed workers, and federal cuts in excess of $400 million.

The impact of the combination of federal and state cuts is increasing poverty, crime and human misery.

Time does not permit me to spell out the effect of the reductions made to meet the $400 million federal reduction in our public schools, the University of Washington, the health care system, or child welfare services. I will focus my remarks on the impact of the twenty-one AFDC amendments enacted in the Omnibus Reconciliation Act, P.L. 97-35.

Those amendments reflect enormous contradictions between stated policy and reality. We hear constantly that Congress and the administration believe the solution to the welfare problem is to put people to work. Yet Congress enacted several amendments to AFDC which reduce the earnings incentive, impose a 100% tax on earnings after 4 months; and guarantee that in spite of working full time, a mother and her children will live in dire poverty. I cannot believe that the members of Congress understood when they enacted the 150% lid on earnings that they knew this would deny any help in the form of subsidized day care, medical care, or any cash supplement to families of three in 35 states where the parent earns less than the $581 a month gross earnings which a minimum wage job provides. (See Standard of Need, Appendix 1). To add insult to injury, the earned income deduction allowed for food stamp eligibility was reduced from 20% to 18%.

In Washington State, 150% of the standard of need is $430.50 for a woman with 1 child in 34 counties.

Washington State Need Standard at 150% Lid

Family Size	Area 1				Area 2			
	Monthly Grant		150% of Grant		Monthly Grant		150% of Grant	
2	$339	361	$508.50	541.50	$287	325	$430.50	487.50
3	$415	440	$622.50	660,	$370	408	$555.00	612,
4	$501	515	$751.50	772.50	$452	483	$678.00	724.50

If I may spell it out for you, what this means is that after paying work expenses a woman with two children will have a net income of $361.12, less than a welfare grant income.

		GROSS INCOME: $580.66 (minimum wage)
Minus Expenses:		
Social Security	$ 38.64	
Net Income Tax	.90	
Bus Fare	20.00	
Child Care	160.00	
Total:	$219.54	NET INCOME: $361.12

An average of 2,900 families in Washington state will be terminated monthly because of the 150% lid.

Lest you think a welfare grant is an extravagant amount, let me remind you that welfare grants in this state, which ranks 10th. highest in the nation in grants for a 4-person household, fell 112.1% behind the increase in the cost of living between July of 1969 (the last time grants were fully updated) and July of 1981.

In 1969 when the Heinemann Commission visited Seattle to determine the extent of poverty here, welfare grants for a family of four were $50.00 above the poverty level. They are now $~~204~~ 8/90 a month below the poverty level, and the poverty level has fallen to 32.7% of median income in 1979.

A welfare grant for the typical 3 person AFDC family is $~~370~~ 408 a month in 34 counties and $4~~15~~ 440 in five counties. It allows:

145.65	$ 134.85	for food
48.50	43.05	for clothing
29.85	27.65	for heating fuel
34.60	32.05	for personal and medicinal supplies
10.75	9.95	for water, sewage, and garbage
22.70	21.00	for household supplies
9.50	8.80	for electricity

and, $~~92.65~~ 106.45 a month for rent in 34 counties in Washington state, and $~~137.65~~ 135.45 for rent in the other 5 counties, including King County, in which Seattle is located.

Rents for a one bedroom apartment in King County range from $265 to $370 a month according to a January 10, 1982 article by the Real Estate Editor of the Seattle Times.

This means that the family must use its $1~~34.85~~ 135.65 food money for rent and try to eat on the food stamp bonus which at most is [illegible] $111 for a welfare family of 3 in King County. That is ~~43.1¢~~ 40.5 per person per meal. Even with food stamps and with the $16.25 a month low income energy assistance, a family on welfare in King County has $1~~23~~ $105 a month less for three persons than a family with a Poverty Level income who also get food stamps and energy assistance in recognition of the inadequacy of such an income.

In the face of 10 to 11% unemployment, it does not make sense to force mothers of young children to choose between the threat of a workfare job at no pay or of working full time to take home less than a welfare grant, or to deprive the children whose mothers cannot get jobs to suffer chronic maluntrition with its attendant effect on learning ability. Both the National Academy of Science study "Towards a National Policy For Families and Children," and the Carnegie Council Report "All Our Children: American Families Under Pressure," agree that no child should grow up in a family whose income falls below the median income for even a brief period of time and should not fall below the Poverty Level for even a short period. Current welfare grants in Washington State now amount to [illegible] 27 to 29 % of the Washington State 1980 median income. To force children to survive on such incomes is to program inevitable failure for most of them who live ill-clothed, ill-housed, and ill-fed.

Another contradiction is evident between the decision to deprive pregnant women of any funds for food, clothing, and shelter for the first five months of pregnancy, and the oft-heard rhetoric about the sanctity of the family and human life. This policy will almost certainly lead to the birth of a low weight baby whose chance of developmental deficits is increased. Of all the 21 AFDC amendments this one perhaps makes the least sense. It will lead to much greater long term costs and is driving some distraught young women to taking overdoses, others to have emotional breakdowns, and others to opt for abortions. This affects 890 women a month in Washington State. Repeated efforts to get the Washington State Legislature to provide general assistance to these women for the first five months of pregnancy failed. We look to Congress to repair the damage this amendment is doing.

Nor can I believe that Congress intended to teach youngsters that it does not pay to work, or at least that it does not pay to be truthful by amending the law to require that the income a youngster earns from a part-time job he or she got in order to be able to have a school activity card or a winter jacket will be deducted from the family's welfare grant.

Another outcome of the AFDC amendments and the regulations promulgated to implement them will be the termination from assistance next month of 9,000 Indochinese refugees, about half of whom have less than a 6th grade education, and still speak little English, hence having little chance of getting jobs in the current job market here. Surely this is not consonant with the policy which brought these people here in return for their assistance to our country.

Another contradiction is evident between the rhetoric about local control and giving the states more flexibility and the amendment which requires states to adopt federal resource limits for AFDC. Washington State updated its resource limits for the first time in 30 years in 1980 in recognition of inflation and of the fact that it is more difficult for people to get off public assistance if they have to become destitute in order to qualify for help. The new resource limit amendment is an unwarranted intrusion into state affairs.

One of the most pernicious amendments is the option to states to count food stamps and housing subsidies as income. Washington State legislators rationalized cutting back grants last November and again in March on the grounds that the cut would be replaced by additional food stamps. To turn around and now count food stamps as income would be a cut on top of a cut. This option would affect a minimum of 4,500 cases a month. It is truly inconceivable that Congress would consider further reducing what is already such an intolerably low standard of living that millions of needy children are suffering from chronic under-nutrition with consequent reduction in intellectual capacity and failure to learn.

To summarize, women who have tried to get off public assistance because it provides so little it is a guarantee of destitution, are being shoved back deeper into poverty because of the 150% lid you passed and because of the reduction in earned income disregards, and the four month limit. Those who are terminated are becoming desperate.

Young pregnant women are confronted with the bleak choice of begging and scrounging for food and lodging for five months, or of having an abortion.

Youngsters whose families are on AFDC are learning that it doesn't pay to be honest. Refugees are being confronted with the prospect of destitution in a strange land, where they have not yet mastered the language.

States are being denied the right to set their own resource limits.

Those who have only a welfare grant to live on may have that little again reduced because in-kind benefits may be counted for the poor, although they are not counted for the rest of us.

The right to strike is being undermined.

All in all, the chief victims of the AFDC amendments are infants, children and their mothers. The long-term costs of these amendments will be all too evident in the not-too-distant future.

Appendix A: AFDC Highest Monthly Amount for Need Standard, 3-Person Assistance Unit (July 1980)

State	Need Standard	150% Need Standard
Alabama	$ 192	$ 288
Alaska	457	686
Arizona	233	350
Arkansas	234	351
California	480	720
Colorado	311	467
Connecticut	475	713
Delaware	266	399
District of Columbia	394	591
Florida	195	293
Georgia	193	290
Hawaii	468	702
Idaho	371	557
Illinois	288	432
Indiana	307	461
Iowa	360	540
Kansas	345	518
Kentucky	188	282
Louisiana	402	603
Maine	415	623
Maryland	270	405
Massachusetts	379	569
Michigan	425	638
Minnesota	417	626
Mississippi	220	330
Missouri	312	468
Montana	259	389
Nebraska	310	465
Nevada	285	428
New Hampshire	346	519
New Jersey	360	540
New Mexico	220	330
New York	394	591
North Carolina	192	288
North Dakota	334	501
Ohio	346	519
Oklahoma	282	423
Oregon	473	710
Pennsylvania	332	498
Rhode Island	453	680
South Carolina	187	281
South Dakota	321	482
Tennessee	179	269
Texas	155	233
Utah	480	720
Vermont	670	1005
Virginia	344	516
Washington	458	687
West Virginia	275	413
Wisconsin	522	783
Wyoming	315	473

I am writing this in desparation, we do not know who to turn to and are hoping that uou might find it important enough to look into this matter. My daughter was on welfare for sometime, she is a single parent with a 5yrs old boy. She wanted to get off welfer so she applied a few months ago forthe SETA program, well she couldn't afford that as, tho they pay for schooling to learn a trade, no living or daycare help was included. She is 23yrs oldand would appreciate the training, so that she could get a better paying job and support herself and her little son. Then she tried WIN and she foud a job at ARA and for two months WIN helped with the day-care and some of our gas to and from work (I guess that is all the lenght of a training program, not sure what training that is, but grateful for the start.). So back to welfare as her wages couldn't not begin to pay for the essential cost of living, she asked for partial assistance. She did get assistance for awhile but now they are one month behind on helping with the daycare(she gets no other assistance). Wednsday she received the August partial payment for her daycare $150.00) but Tuesday was advised at the Welfare office that she was making to much money and that as of October 1st she will not receive anymore assistance at all. Following is what the govermenment consideres to much money:

Take home per week: $123.00 Total take home around $492.00 per month

Union dues:	$13.00	
One bedroom appartment	230.00	
Daycare	170.00	
Utilities	20.00	
Gas money she gives me to drive her back and forth to work and Brian to daycare.	20.00	492.00 453.00 30.00
	$453.00 expenses	

That leaves her with about $39.00 per month to feed and cloth herself and herfive yrs old son and that is considered to much money to get assistance????That doesn't even pay for the milk for Brian or the washing and the basic hygienic supply!!!

GENERAL ASSISTANCE FOR PREGNANT WOMEN: AN INVESTMENT IN PREVENTION

WHO?

- 890 average monthly caseload. 2,100 women per year
- pregnant for the first time, ineligible for AFDC since October 1981
- unemployed with no other source of support
- all but 6.2 % of legal age in August 1981

WHAT DO THEY GET NOW?

- maximum of $70 a month food stamps
- 2,000 slots available for WIC supplemental nutrition program for this year
- one month emergency assistance from CEAP, Consolidated Emergency Assistance and 25% of up to a full grant for the second month

WHAT DO THEY NEED?

- a general assistance grant for the third, fourth and fifth months of pregnancy for food, clothing and shelter until they qualify for AFDC in the sixth month

WHAT DOES IT COST?

- $2.3 million for the biennium

WHY IS IT IMPORTANT?

- inadequate nutrition and care during the first five months may lead to fetal damage which could cause the birth of a developmentally disabled child

HOW MUCH WOULD THEY GET?

- $260 a month in 34 counties and $282 in five counties for three months.

- no extra is provided for a layette or vitamins or extras

WHO SUPPORTS PROVIDING GENERAL ASSISTANCE FOR THREE MONTHS?

- Developmental Disabilities Planning Council
- Seattle Urban League
- Washington Association for Social Welfare
- Council of Planning Affiliates
- Washington Catholic Conference
- Washington Women United

WHAT WOULD IT COST NOT TO DO IT?

- If only ten developmentally disabled children were born as a result of inadequate care for these mothers during the first five months, the cost of institutional care at $28,627 a year for ten years would exceed the cost of providing general assistance to these women for the remainder of this biennium.

K. Thode, Seattle Urban League
November, 1981

DON'T THEY GET ALL KINDS OF OTHER BENEFITS?

FOOD STAMPS

The ceiling for food stamp eligibility is set at a NET income equal to the Poverty Level for S.S.I. recipients. It is a GROSS income of 130% of the Poverty Level for A.F.D.C. recipients and others.

Some A.F.D.C. recipients who work at paid jobs are ineligible because their gross income exceeds the limit, although their net incomes do not.

The maximum food stamp bonus for the typical three-person A.F.D.C. family in Washington State, assuming the family qualifies for the maximum shelter deduction and has only public assistance income, is $11[illegible].00--Area 1 (King, Kitsap, Pierce, Snohomish & Thurston counties), and $~~132.0~~0--Area 2 (the other 34 counties).
$121

LOW INCOME ENERGY ASSISTANCE

The low income Energy Assistance grant is based on income, family size, and the area in which one lives. The one-time grant amounts to $195.00 a year for one to four person public assistance households in Washington State. Pro-rated on a monthly basis, this amounts to $16.25 a month.

MEDICAL CARE

In September, 1981, only 23% of the state's expenditures for medical assistance, including nursing home care, was expended for AFDC recipients. The remainder went to other categories, primarily to the aged, blind, disabled, and general assistance recipients.

Care is limited to one visit per month without prior authorization. There is no adult dental care and no preventative care.

SUBSIDIZED HOUSING

In Washington State, only 4% of welfare recipients live in subsidized housing. Unsubsidized apartment rents for 1 bedroom units range from $265 to $370 a month.

COMPARISON OF PUBLIC ASSISTANCE GRANTS AND BENEFITS WITH POVERTY LEVEL INCOMES, PLUS BENEFITS

Household Size		July 1981--June 1982 WN AFDC GRANT Plus Food Stamps & Energy Max. Pmt.			April 1981--March 1982 OMB Poverty Level Plus Food Stamps & Energy Pmt.
		AREA 1	AREA 2		Non-Farm
1		$343.25	$328.25		$398.25
2	457.25	441.25	405.25	431.25	536.25
3	567.25	549.25	518.25	545.25	672.25
4	669.25	660.25	625.25	647.25	802.25

Kay Thode, Seattle Urban League: Jan. 1982

WHY DON'T THOSE AFDC RECIPIENTS GO TO WORK?

UNITED STATES

The 1977 Recipient Characteristics Study issued by the federal government, indicated that nation-wide 13.8% of AFDC mothers were working; 3.2% were in school or training. 48.9% were needed at home to care for young children or were themselves incapacitated. 11.2% were actively seeking work, or waiting to be called back to work. 21.3% were not actively seeking work, and 2.6% fell into the "unknown" category.

58% of them had children under six years old. Nearly 90% had children under 11 years old.

The 11.2% seeking work and the 21.3% not seeking work but presumably employable constituted 5.0% of all those on welfare in 1977. The remainder were children, aged, blind, disabled, or incapacitated adults or mothers caring for young children.

Fathers in two-parent welfare families in the 27 states which had an AFDC program in 1977, accounted for 1% of all people on welfare nationwide in 1977. They were required to be actively seeking work.

EMPLOYMENT STATUS OF AFDC MOTHERS IN 1977

STATUS	NUMBER	PERCENT
Employed	442,999	13.8 %
In school or training	103,634	13.2 %
Actively seeking work, or awaiting recall	360,833	11.2 %
Needed in home as fulltime homemaker	1,338,798	41.6 %
Incapacitated	202,785	6.3 %
Not actively seeking work	685,009	21.3 %
Unknown	85,285	2.6 %
TOTAL	3,219,343	100.0 %

WASHINGTON STATE

October 1980 data showed that of the recipients in newly opened cases, 21% were expected to work, 15% were working. Among the total caseload, 70% of female adults on regular AFDC were needed at home. 14% were employed full-time; 2% were physically handicapped; 3% were in full-time school or training programs; 7% were classified as "other". The male recipients were incapacitated in 2% of the cases, and needed in the home in 2% of the cases. Among new cases in October, 61% had children under 6 years of age.

K. Thode, Seattle Urban League

January 1982

HOW MUCH DOES A WELFARE GRANT PROVIDE?

Washington State Monthly Public Assistance Grant
July 1981

COMPONENT	AREA 1	$ Amount of Typical FAMILY OF 3	AREA 2
Food		$ 134.85	145.65
Clothing		43.05	46.50
Heating Fuel		27.65	29.85
Personal & Medicinal Supplies		32.05	34.60
Water, Sewage & Garbage		9.95	10.75
Household Supplies		21.00	22.70
Electricity		8.80	9.50
Rent	$ ~~137.65~~ 138.45		$ ~~92.65~~ 106.45
TOTAL MONTHLY GRANT	$ ~~415.00~~ 440.		~~$370.00~~ 408.

Maximum food stamp bonus is $~~118~~ 111 in Area 1 and $~~132~~ 121 in Area 2.

4% of Washington recipients live in subsidized housing.

Low income energy assistance provides $16.25/month on a pro-rated basis

A COMPARISON OF PUBLIC ASSISTANCE GRANT STANDARDS AND OTHER LIVING STANDARDS FOR A FAMILY OF FOUR, 1980 and 1981

Monthly $ Amounts

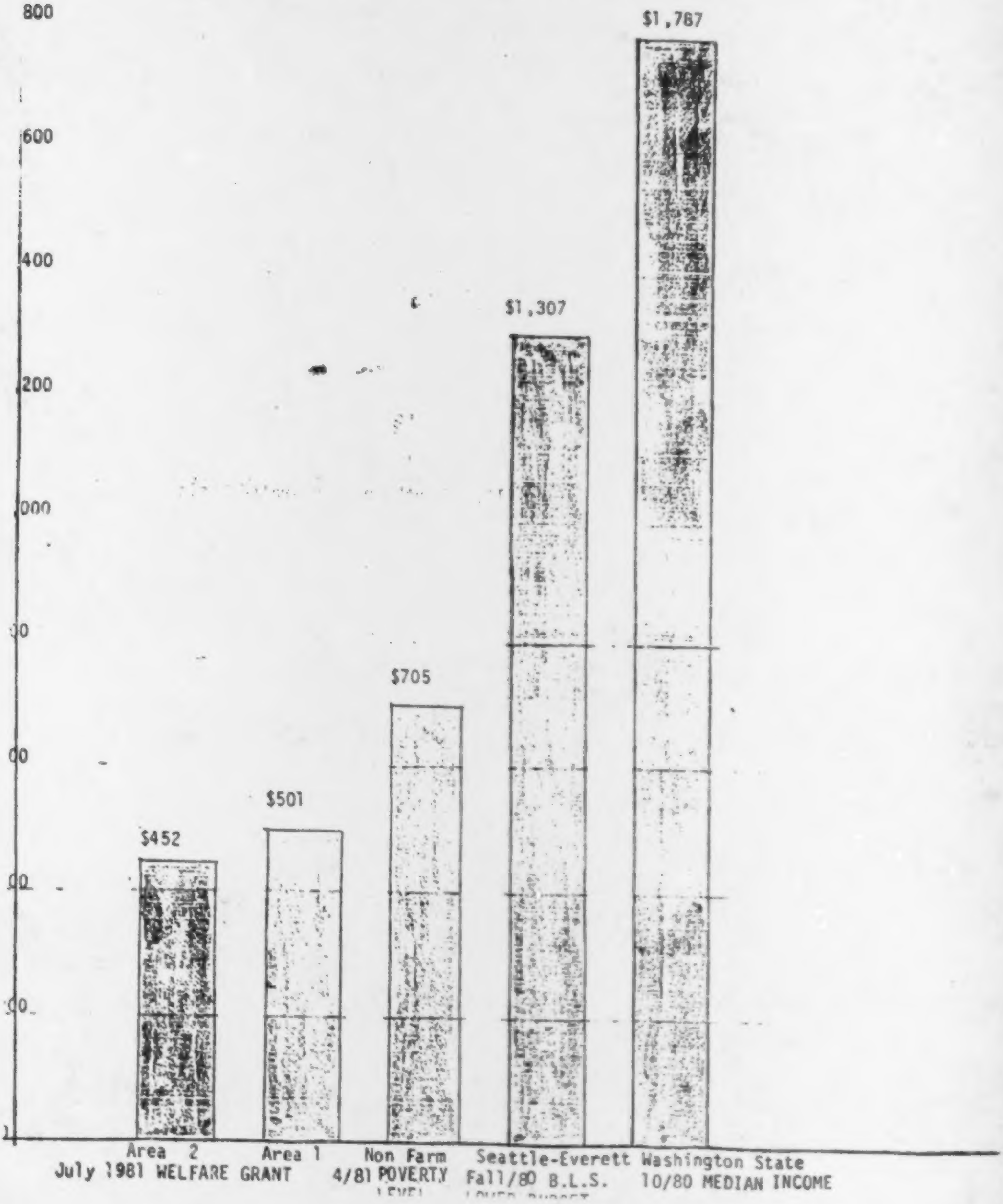
Washington State Public Assistance Monthly Grant 7/81		U.S. - OMB Poverty Level Non Farm 4/81	Bureau of Labor Statistics Lower Budget Seattle-Everett Autumn '80		Median Income Washington State Oct. '80
Area 1	Area 2		Total	Consumption Only*	
$ ~~501~~ 515	$ ~~452~~ 483	$ 705	$1,307	$ 940.32	$1,787

*Excludes taxes, work expenses and medical

Kay Thode, Seattle Urban League

October 1981

A COMPARISON OF PUBLIC ASSISTANCE GRANTS IN WASHINGTON STATE WITH OTHER LIVING STANDARDS FOR A FAMILY OF FOUR PERSONS, 1980-1981



A COMPARISON OF THE INCREASE IN PUBLIC ASSISTANCE GRANTS AND THE COST OF LIVING MEASURED BY THE CONSUMER PRICE INDEX, 1969 - 1981

Date	Area 1 * Public Assistance Monthly Money Grants 3 Person Household		Annual Percent Increase	Seattle-Everett All Urban Consumers Consumer Price Index		Annual Percent Increase
July 1969	$288			August	110.2	
" 1970	$288		0 %	"	114.6	4.0 %
" 1971	$240	-($48)	- (16.7) %	"	117.7	2.7 %
" 1972	$260		8.3 %	"	119.9	2.0 %
" 1973	$273		5.0 %	"	128.8	7.4 %
" 1974	$286		4.8 %		143.0	11.0 %
" 1975	$315		10.1 %		157.3	10.0 %
" 1976	$328		4.1 %		165.7	5.3 %
" 1977	$355		8.2 %		180.2	8.8 %
" 1978	$375		5.6 %	Sept.	201.0	11.5 %
" 1979	$413		10.1 %	"	222.6	10.7 %
" 1980	$458		10.9 %	"	258.1	15.9 %
Nov. 1980	$440	-($18)	- (3.9) %	Nov.	259.4	.5 %
Mar. 1981	$389	-($51)	- (11.5) %	Mar.	270.0	.4 %
July 1981	$415		6.6 %	July	282.3	2.7 %
JAN 1982	$440	[illegible]				

CUMULATIVE INCREASE
JULY 1969 to JULY 1981 44.1 %

CUMULATIVE INCREASE
AUGUST 1969 to JULY 1981 156.2 %

Grants for the typical 3 person family in the five "high" grant counties in Washington state fell 112.1% below the increase in the cost of living since 1969, the last time grants were fully updated to reflect current living costs as required by law, until passage in 1981 of HB 245.

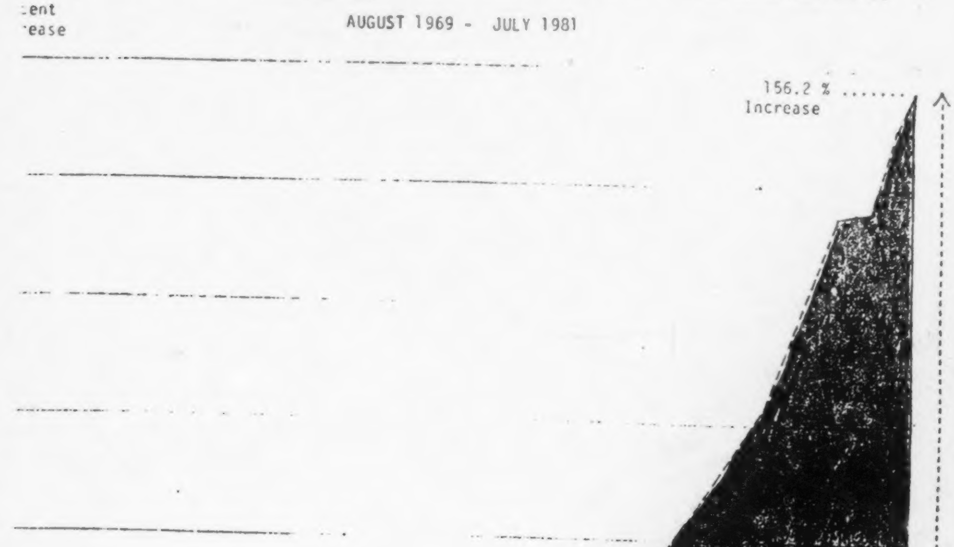
*Area 1 consists of King, Kitsap, Pierce, Snohomish and Thurston counties.

K. Thode, Seattle Urban League

8/81

A COMPARISON OF THE INCREASE IN PUBLIC ASSISTANCE GRANTS IN THE 5 "HIGH" GRANT COUNTIES and THE COST OF LIVING MEASURED BY THE CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS,

AUGUST 1969 - JULY 1981



Kay Thode, Seattle Urban League

August 1981

ISN'T THERE A LOT OF FRAUD IN THE AFDC PROGRAM?

For the quarter ending August 1981, the latest period for which data for the State of Washington is available, there were an average of 53,272 cases per month on AFDC.

During that period, there were 3,762 cases where there was sufficient evidence to support a question of fraud. Out of the 3,762 cases, only 218 were referred to an agency empowered to prosecute.

Cases in which there was a question of fraud involved 7.0% of all AFDC households.

Cases referred for prosecution involved four-tenths of one percent of all AFDC households.

A recent study by the General Accounting Office, based on a 2½ year review of 21 federal agencies, indicates that 29% of federal employees committed fraud, as well as 18% of individual recipients of federal assistance and 12% of corporate or business entities. This accounted for almost half of the cases of fraud identified by G.A.O., and false statements accounted for 25 percent.

The Defense Department and the United States Postal Service accounted for the vast majority of theft cases.

K. Thode: Seattle Urban League January 1982

SUMMARY OF WELFARE GRANT, MEDICAL AND SOCIAL SERVICES PROGRAMS REDUCED OR ELIMINATED BY THE 1981 LEGISLATURE

WELFARE GRANT PROGRAMS ELIMINATED

PROGRAM	NUMBERS AFFECTED average monthly	NET IMPACT IN $ MILLIONS		
		STATE	FEDERAL	TOTAL
AID TO FAMILIES WITH DEPENDENT CHILDREN AFDC-E (for two parent families)	12,707[1] PERSONS	$ 14.1	$ 14.1	$ 28.2
CONTINUING GENERAL ASSISTANCE				
- Incapacitated with conditions expected to last less than 60 days	600 CASES	3.6	0	3.6
- Students cut off AFDC at 18, still in high school	294 STUDENTS	1.5	0	1.5
- Families ineligible for AFDC with a parent in training	413 PERSONS	1.6	0	1.6
NON CONTINUING GENERAL ASSISTANCE	3,390 PERSONS	15.7	0	15.7
Food Only grants for unemployed, "employable" single persons & childless couples or others	(25% incapacitated pending medical certification or families ineligible for AFDC)			
FEDERAL EMERGENCY ASSISTANCE	5,287 PERSONS	14.9	14.9	29.8
1 month full grant for families ineligible for ongoing grants.				
OTAL GRANTS ELIMINATED		$ 51.4	$ 29.0	$ 80.4
OFFSET BY CEAP		-20.0	0	-20.0
T TOTAL GRANTS ELIMINATED		$ 31.4	$ 29.0	$ 60.4
MEDICAL PROGRAMS ELIMINATED				
AFDC-E Medical	Approx. 12,707 ELIGIBLES	$ 2.9	$ 3.0	$ 5.9[2]
GA-U Medical	1,138 ELIGIBLES	5.1	0	5.1
FEA Medical	5,287 ELIGIBLES	3.5	3.5	7.0
ADULT DENTAL	10,565 USERS, 1/3 elderly	18.8	18.8	37.6
ROUTINE FOOT CARE	1,200 USERS	.4	.4	.8
CHIROPRACTIC	6,400 USERS	1.3	1.3	2.6
FAMCO (for categorically relatable over income)	8,236 USERS	42.7	42.7	85.4
MEDICAL ONLY-acute & emergent	1,110 USERS	22.4	0	22.4
OTAL MEDICAL ELIMINATED		$ 97.1	$ 69.7	$ 166.8
OFFSET BY LIMITED CASUALTY MEDICAL		-50.0	0	- 50.0
ET TOTAL MEDICAL ELIMINATED		$ 47.1	$ 69.7	$ 116.8
SOCIAL SERVICES ELIMINATED				
DAY CARE for AFDC recipients in training	Est. 1,640 CHILDREN	$ 1.4	$ 4.3	$ 5.7
OTAL ALL PROGRAMS ELIMINATED	No unduplicated # available.	$149.9	$103.0	$ 252.9
OFFSET BY CEAP and LIMITED CASUALTY		-70.0	0	-70.0
ET TOTAL ALL PROGRAMS ELIMINATED		$ 79.9	$103.0	$ 182.9

Footnotes

1. Net, assuming 19,672 people transferred to AFDC-R, Total AFDC-E people cut 32,379.
2. Net, assuming $9.1 million was budgeted to care for these recipients in AFDC-R and other programs; otherwise this total would be $15 million.

PROGRAMS REDUCED

PROGRAM	# AFFECTED	COST IN $ MILLIONS STATE	FEDERAL	TOTAL
WELFARE GRANTS To restore to July 1980 level	150,000 persons	$ 66.0	$ 63.0	$129.0
CHORE SERVICES Free only for those with incomes of 30% median income	Est. 4,000 cut off 6,000 reduced	8.5	15.8	24.3
TOTAL PROGRAMS REDUCED		$ 74.5	$ 78.8	$153.3

The magnitude of the programs eliminated and reduced is $406.2 million -- $224.4 million state and $181.8 federal.

$70 million of the $406.2 million reduction is offset by appropriations of:

$20 million state for a Consolidated Emergency Assistance Program which is supposed to replace AFDC-E and Federal Emergency Assistance, and

$50 million state for a Limited Casualty Medical Program which is supposed to take the place of FAMCO and MEDICAL ONLY.

The new emergency assistance program is limited to providing help only to families, only for specific needs and only for two months in any twelve consecutive months. Eligibility is to be stricter than for AFDC and all cash is counted in determining eligibility. Grants will be 100% of an AFDC grant in the first month and 125% of an AFDC grant in the second month minus the amount received in the first month. Medical assistance does not automatically accompany eligibility for CEA.

The Limited Casualty program requires medically needy persons or families to pay a deductible of 1/2 the cost of the first day's hospital stay for inpatient care and a $2 co-payment for emergency room visits. Medically indigent persons and families must pay a deductible of $1500 for the acute and emergent care which is all they are eligible for. Former AFDC-E recipients fall in this category.

The extent of the shortfall in public assistance grants is evident from the following table. Grants for the typical two, three and four person families in Area 2 will be below 1979 levels through June of 1982.

WASHINGTON STATE PUBLIC ASSISTANCE CASH GRANTS - MONTHLY $

	AREA 1							AREA 2					
# Persons	July 1979	July 1980	Nov. 1980	March 1981	July 1981	July 1982	# Persons	July 1979	July 1980	Nov. 1980	March 1981	July 1981	July 1982
1	$233	$259	$249	$262	$282	$306	1	$220	$244	$234	$241	$260	$284
2	$339	$376	$361	$317	$339	$364	2	$305	$339	$325	$264	$287	$311
3	$413	$458	$440	$389	$415	$446	3	$383	$425	$408	$342	$370	$398
4	$483	$536	$515	$468	$501	$537	4	$453	$503	$483	$421	$452	$490
5	$553	$614	$590	$556	$593	$637	5	$523	$581	$558	$509	$546	$590
6	$623	$692	$665	$628	$671	$718	6	$593	$659	$633	$581	$621	$671
7	$693	$740	$740	$727	$778	$835	7	$663	$737	$708	$680	$730	$788
8	$727	$772	$772	$804	$859	$921	8	$727	$772	$772	$757	$809	$873

Kay Thode, Seattle Urban League
447-3795
Source: DSHS budget and medical personnel

July 1981

Mr. **Rangel**. Thank you.

Ms. Pratt-Marston.

STATEMENT OF CHRIS PRATT-MARSTON, CHAIRPERSON, SNOHOMISH COUNTY WELFARE RIGHTS COALITION

Ms. **Pratt-Marston**. Thank you, Mr. Chairman.

I am pleased to be invited to speak here today.

It appears that I am the only low-income person here. Many others have had to fire people, and that is painful because of budget cuts, but I live with and deal with people on a daily basis, so it is a very personal experience.

I would ask permission to submit my entire written testimony later for the record, but right now will summarize it, because you are on time constraints.

Mr. **Rangel**. Thank you. Without objection.

Ms. **Pratt-Marston**. We are seeing more people who are evicted from their housing because their welfare grants do not reach. I realize that that is a State as well as a Federal problem, but, at the same time, we are getting from the Federal Government that States have the option to count getting housing subsidy as if it were income.

We can't possibly get enough ahead to get off welfare. I will go through a few things that have been the most devastating to us, that have created the most hardship for the most number of recipients.

One would be the cap on the eligibility, the 150 percent. It is an inhumane cap and creates dire hardship, especially for children and women who are trying to get ahead, and it makes it almost impossible for you to do anything but just barely survive.

One of the women that I work with that has a child makes $630 a month gross. She lives 35 miles from her job, so has significant expenses in travel. She has cancer and has now lost her health care as well as the day care she was able to have for her child and the car expenses, and she is far in the hole because she works for a small social service agency, the Crisis Line, and they have no health care provisions for their employees.

The earnings disregard is another thing. If you have transportation or day care costs, the limits that have been set are not enough.

The 30⅓ is a net instead of gross. The limitations to the work incentives is a sham. It is no joy to stay on welfare, I can assure you, and we stay on welfare while we are employed because we have low wages, and we need health care and day care and need that small amount of money to try to make ends meet. It is not for the joy of it that every 6 months we fill out 38 pages of a form, and bring out all of our life history.

We do it because it is essential, not for joy.

I have addressed the optional counting of food stamps. Less than 5 percent of the recipients in this State are in subsidized housing.

People who get evicted, get evicted not because they are bad managers, but when you can't find anything less than $350 a month, and their grant is $400 a month, how are you going to manage when you also have to pay your utility bills and other things? It is not from bad management, gentlemen. It is because it does not reach.

It is the rules that have been set up. I want to speak briefly to the work fare issue. People are not lazy on welfare. They want jobs, but real jobs with real money. We are not working off a debt, because we are willing to stay home and take care of our children.

We would like our second jobs to have the seniority rights of the person beside us and also have a difficult time facing the people who are in the unemployment office, and we are going out to take the job that they used to perform as a paid worker. You are really creating the kind of clash between us because both of us are in a bind.

The recovery of overpayments for departmental error in AFDC payments, I don't know what happened in the rest of the country, but I will tell you what happened in this State.

When that passed the Congress, what this State did, and that is the problem that we have, I oftentimes, I almost always, have more response when I go after concerns at the Federal level than I do at the State level.

People who have money, people who have paid lobbyists, have the say at our State level.

Those of us who are without those kinds of benefits have very little say, and you can reach the Federal people far easier than I can—I would like to get rid of that myth that getting it back to home is going to be a good thing.

In this State, they decide, oh, that is good; Congress has said we can now mandatorily deduct payments that were paid because of departmental error; that we will be able to now take those out. You didn't know you were getting too much. Not only did they decide to do it; they could have done it on 101, when the bill became effective, or right away, after some other time in the State. They decided it should really go retroactive to any time you had ever in your life been on AFDC and any overpayment from departmental error had been made, and not only that, they would also go forward, and whatever that was would be a debt that your children owe, if they should ever find themselves so unhappy as to have to be on AFDC at some time.

Fortunately, the Federal courts found in our favor in the suit which we filed.

I will be very brief. Lump-sum averaging, it might have sounded like a small thing when it was being put in to divide the lump sum and divide it by the standard of need and pretend that that money lasts that long. Lump sums are what we have been able to use to get ourselves a car to get to and from work. It is what we have been able to use to pay hospital and other bills that are not covered by the medicaid, and what we have been able to use to buy ourselves maybe some clothes to consider becoming employed and an avenue to get ourselves off welfare, and, again, it has been taken away from us.

We have problems, a lot of aliens here. Now that the alien sponsor's income is being counted, we are having severe problems with income maintenance for those groups of persons.

The restrictions on the pregnancy benefit is very bad. It has been spoken to by Kay, and I won't do it, but the other thing, if you go on strike on the last day of the month, you are ineligible for the whole month's welfare.

That is nothing except strike breaking. If I apply for welfare on the first of the month, I may not know I will go on strike at the end of the month.

If you are eligible on the first of the month, you are presumed eligible for the entire month. Otherwise, it would get bonkers trying to figure who did what during the month.

The other thing is that the children are not on strike, and it is inhumane not to allow the coverage for those persons who have no other resources.

I can tell you that we are facing individuals, and I realize that that is not a Federal program who have no resources in the State. We are facing women who have lost their day care because of the title XX cutbacks, no training in this State.

We have lost now the day care for those who are not on AFDC, who used to pay a portion of their day care. The whole program has been wiped out. There is no day care program. It is a nice State option, but when it gets down to the State option, people don't always listen to what the needs are because we don't have the bucks to go down and do the lobbying, and we end up with services that we can make a better case for at the Federal level.

We absolutely have to have some protections on what kind of programs are provided. We talk about cutting back on the cost of welfare, and we make it almost impossible for people to work their way off.

Mr. **Rangel**. Thank you.

Mr. Keith Putman.

STATEMENT OF KEITH PUTMAN, ADMINISTRATOR, ADULT AND FAMILY SERVICES DIVISION, STATE OF OREGON

Mr. **Putman**. I want to especially express my appreciation, being an out-of-stater, to being invited up here to the fine State of Washington for this opportunity.

I have but one point I want to try to make today, Mr. Chairman, and that is that funding for WIN demonstration projects should not be cut. There are better ways to do it.

I want to spend the allotted time giving you what I believe are sound reasons for those statements. I want to show you how WIN demonstration projects will reduce welfare expenditures. These reductions are not theoretical future achievements, but hard dollars in both the short and long range.

My 25 years of public service have been primarily, but not exclusively, spent in administering many aspects of public assistance programs. That background includes system analysis, methods development, budget analysis, programmatic and fiscal research. I am not, by training or experience, a social worker. My concern for the poor is directed at the poor as a group, not as individuals. I recognize that, often, what is good for a group is frequently harmful to individual members of that group.

Conversely, what is good for an individual may not be good for the group. You, as Members of Congress, probably recognize the truth of these statements more than I do. Often, however, what is good for one individual will also serve the group well, even if it does not serve every individual. My suggestion today is that Oregon's experience can serve America well. But I don't suggest that Oregon's methods should be mandated to every other State. States need the flexibility to use and modify these methods to their own unique circumstances.

The WIN program began in 1971. It was aimed primarily at AFDC families in which there were two employable parents. It also extended mandatory coverage to a significant minority of single-parent families—those in which there was no child under age 6. The funding base for WIN distributed congressionally-approved funds to States on a so-called "performance-based allocation formula". Under that formula, the more money a State saved by reducing or stopping AFDC payments, the larger slice it received of the national pie. But, the formula contained several flaws which were not at all apparent at the outset. The problem is that those flaws, now abundantly clear, still have not been corrected.

The first flaw is that States with high cash grants benefit most. Indeed, a State can increase its WIN funds by simply increasing its grants, without finding clients any more jobs. For example, assume two States—one paying $600 per month to a family, and the other State paying only $400; assume, also, that each State paid an additional $200 per month in medicaid. Then assume that each State's WIN program placed its family in a job netting $500 per month. The $600 State would reduce its cash grant to $400, plus still provide the $200 medicaid benefits. The $400 State would close its cash grant, and would also stop providing medicaid benefits. Incredibly, the WIN formula will credit the high grant State with $500 savings and give only $400 credit to the State which closed both its $400 AFDC and $200 medicaid benefit grant, thus saving the treasury $600.

The second major flaw is that WIN funding does not recognize the value of keeping a family off welfare in the first place. If a State manages to keep all applicants off welfare by directing them into jobs, it would get no WIN credit whatsoever. With a minor exception, States could not use WIN money for job finding and job placement activities for persons who had applied for AFDC but had not actually been enrolled. States which saw the benefits of such activities, and made those expenditures with unmatched State dollars, found that their success in keeping a family off AFDC with jobs simply did not count in the alleged performance-based allocation.

A third major flaw is that the two-employable-parent caseload is not being effectively controlled by WIN. There are too many loopholes. The two-employable-parent program, designed by Congress as a means of providing temporary help to unemployed families, has become a year-round way of life for many families.

Not so in Oregon. In July 1979, Oregon dropped its cash assistance program for those families, saving the Federal Government $20 million per year in matching funds. Let me add here, Mr. Chairman, that prior testimony today indicated a 20-percent to 30-percent family breakup of these families in Oregon. Our data is at substantial variance to that, and I will gladly provide the actual figures should you so desire. Unable to get Federal fund to continue to help those families find employment. Oregon remained committed to helping these families and, with its own unmatched funds, established its own job-finding and emergency help program which, by any measure, was more successful than WIN had been, or could ever be.

However, since those households—nearly 5,000 of them—were no longer receiving AFDC grants which WIN could close or reduce, the money Oregon earned under its WIN formula dropped markedly. Oregon was directly penalized through a reduced WIN allocation precisely because it reduced Federal expenditures by $20 million per year. There are several other areas where Federal funds are being withdrawn because Oregon saved or is saving the Federal Government millions of dollars.

The greatest flaw, in my judgment, is the organizational separation of the WIN operations at both the State and national levels between labor, or employment agencies, and the welfare agencies. In many States, these two agencies had no effective working relationship with each other. Often, there is no organizational mechanism for requiring cooperation between the two. Even when there was splendid cooperation—as is the case in Oregon—there is no way an employment agency could feel the same degree of commitment—or pressure, if you will—toward lowering welfare costs as would be felt in the welfare agency. For an employment agency to fall short in its job placement targets is just that—a missed target. For the welfare agency, it means cutting back other client benefits in order to avoid a deficit which, by the way, is a felony in Oregon.

Suppose there were excellent coordination between welfare and employment agencies. The client still had to be shuffled back and forth between the two, with a loss of momentum and time toward job finding.

In recognition of these flaws, but not fully convinced of how to overcome them, less than 6 months ago, the Congress provided for States to operate WIN demonstration projects under the unitary management of the welfare agency and set aside many of the procedural but nonproductive dictates of WIN.

The law provides for States to operate their projects at the "initial fiscal year 1981 allocation level." Congress wanted action—but also wanted to limit expenses to what would have normally been approved for regular WIN. Oregon sought and received demonstration status. Oregon's project is fully operational today, but is run with less staff than was needed before. We are projecting a stable AFDC caseload even in the face of an annual 3-percent population growth and a rising unemployment rate which is now fourth worst in the Nation. Continued funding of the demonstration project is crucial to keeping the caseload down. Oregon's demonstration project is free of the major flaws of the WIN program. I am sure the same can be true in other States as well.

It now appears that congressional and executive disenchantment with the original WIN program—which produced the WIN demonstration legislation less than 6 months ago—may also pull funds away from both the problem WIN program and the solution demonstration projects.

Ladies and gentlemen, out of 20 years' experience in this business, and proudly coming from a State in which AFDC caseloads are dropping while unemployment is going up, I am convinced that cutting WIN demonstration project funds will cost you.

I understand your need to find places to reduce Federal expenditures. I understand your pessimistic views of the original WIN program. But please don't cut solution funds simply because you feel the original is not working. If WIN demonstration funds are cut, those clients who are now being diverted into jobs will end up on AFDC. The cause-and-effect relationship is not theoretical. It is one-to-one and is immediate. The certain increase in caseloads will cost far more than the hoped-for savings. There is no doubt whatsoever.

I have six specific suggestions on how to reduce AFDC expenses without significant hurt to clients, and will gladly share those suggestions with this committee.

Thank you very much, Mr. Chairman, for this opportunity.

[Mr. Putman's "Specific Recommendations for Welfare Reform" follows:]

SPECIFIC RECOMMENDATIONS FOR WELFARE REFORM

Supplement to testimony of Keith Putman, Administrator, Oregon Adult and Family Services Division

I. RECOVERY OF AFDC OVERPAYMENTS FROM FEDERAL INCOME TAX REFUNDS

Last year Congress enacted Public Law 97-35 which is designed to significantly increase the recovery of child support payments by intercepting federal income tax refunds. The State of Oregon has had such an intercept system to its state income tax refunds in operation for many years. In fact, the state has not only recouped child support obligations from state tax refunds but also has been recovering AFDC overpayments from this system as well. In the past 12 months, the State of Oregon has recovered over $1.5 million in AFDC overpayments from its state income tax offset program. We, therefore, feel that it would be in the federal government's best interest to initiate new legislation which would address recovery of AFDC overpayments from federal tax refunds. In oregon alone, we estimate that this would generate over $4.5 million annually in savings to the AFDC Program. Of course, if this program were expanded nationwide, the savings would be in the neighborhood of 100 times this amount.

II. DEMONSTRATION PROJECTS FOR STATES WHICH HAVE AFDC PROGRAMS FOR TWO-PARENT FAMILIES

Congress has never found the AFDC-UP (unemployed parents) Program entirely supportable as social policy. Consequently, under the Social Security Act (Section 407), aid to intact families due to the lack of employment of a parent is an optional program. Currently, only half of the states and territories include AFDC-UP in their Title IV-A State Plan. Oregon is among the few states which once offered the program but later discontinued it because of the essentially unenforceable work requirements and federal laws which serve as barriers to states attempting to carry out a philosophy of a work ethic.

The problem under current law is that AFDC aid to two-parent families is an all or nothing proposition with the state. If the state opts into the program with the resulting federal match, the state must buy into *all* of the requirements of Section 407 of the Social Security Act. This is because, under Section 1115(a) of the Social Security Act which allows for demonstration projects, the Secretary of DHHS may not waive compliance with any of the requirements of Section 407 (AFDC-UP). The rationale for this restriction apparently is that if the state does not approve some of the program requirements, the whole program must be dropped. Thus, unless the state is willing to create its own alternative program and is able to fund its entirely from state funds, absolutely no assistance will be available to unemployed families, even in cases of legitimate need.

In July 1979, The State of Oregon opted out of the AFDC-UP program because it was convinced that the federal requirements under this program acted as significant barriers to fostering self-sufficiency among this clientele. In its place, the state set up a 100-percent state funded job placement and assistance program for unemployed two-parent families called WORTH (Work or Training for Two-Parent Families). This program has proven to be extremely effective in reducing dependency on public assistance by finding jobs for this clientele. In fact, the program has been far more successful that we ever imagined and has saved the state and federal government over $20 million a year in reduced public assistance expenditures.

If all other states which currently have AFDC–UP programs were to follow Oregon's lead and establish "innovative" programs of their own, the savings of the federal govenment in reduced welfare expenditures would be substantial; far more than what is contemplated in the next round of AFDC program reductions. Unfortunately, other states are reluctant to follow Oregon's lead in this area because they are extremely reluctant to give up the federal matching funds. We feel that states should be encouraged to develop their own AFDC–UP programs on an experimental basis through demonstration projects intended to promote self-sufficiency and to further the objectives of Title IV–A of the Social Security Act. Therefore, Oregon strongly recommends that Section 1115(a) of the Social Security Act be amended to allow waivers to the provisions of Section 407 of the Act with the expectation that it would be in the states' interests to develop programs with realistic work requirements. Without question, savings in both federal and state funds would result, also data would be collected and used in suggesting to Congress, acceptable changes to the AFDC–UP Program.

III. RECOMMENDED CHANGES TO TITLE IV–A OF THE SOCIAL SECURITY ACT TO STRENGTHEN STATES' EMPLOYMENT PROGRAMS FOR AFDC CLIENTS

Oregon has always had an aggressive job finding an employment assistance program for AFDC clients. However, in August 1980, in response to rising caseloads, the state instituted an even more aggressive job search program called the Coordinated Job Placement Program. This program puts special emphasis on finding jobs for AFDC applicants before they become recipients. The objective is to provide employment in lieu of public assistance on the rationale that the client is much better off with a job as an alternative to public assistance. Thus, dependency is avoided in the first place. This program has proven to be very successful in terms of increasing the number of applicants finding a job and in terms of reduced caseloads. Since August 1980 when the Coordinated Job Placement Program was initiated, the AFDC caseload in Oregon has fallen from a peak of 38,500 families to a current caseload which is below 29,000 families, a 25-percent decrease, while the unemployment rate rose 40 percent.

However, despite the successes that Oregon has achieved in this program, there are still a number of obstacles which we are encountering which are acting as barriers to making this program even more successful. These obstacles have mainly to do with several provisions of Title IV–A of the Social Security Act which inhibit a more aggressive employment thrust in this area. The following are recommended changes in the Social Security Act which we believe will allow states to more aggressively pursue employment as an alternative to AFDC assistance and thus, produce significant savings in the program.

A. Provide stronger sanctions to AFDC applicants/recipients who refuse to cooperate with work search requirements of who refuse a bonafide job offer

Under Section 402 of the Social Security Act, single-parent families who are on AFDC assistance or who are applying for AFDC assistance and refuse to cooperate with the work search requirements under the Work Incentive Program are sanctioned by having the needs of the caretaker-relative removed from the grant. We have discovered that, for many families, these sanctions are not strong enough. Many single parents who do not want to look for work even though they are able, are quite content to live off of a reduced grant rather than go to work. We believe that if the AFDC applicants/recipients are not willing to take reasonable steps toward self-sufficiency, public assistance should not be granted at all. This is what is presently being done in the case of AFDC-UP recipients.

Therefore, we believe that Section 402 of the Social Security Act should be amended to deny AFDC benefits to AFDC applicants/recipients who are mandatory WIN clients and who refuse to cooperate in finding employment. We believe that this is necessary ingredient to a strong JOBS Program and is essential in preserving the integrity of the AFDC Program.

B. Lower the age of mandatory WIN participation for single parents

Under the current law, AFDC single parents are required to register with WIN and participate in Work Search activities if their youngest child is under six years of age. Single parents with the youngest child under six are exempt from this process on the apparent rationale that they should stay in the home and care for the youngest child.

This philosophy, however, is based upon the assumption that society is willing to pay the price for the resulting higher AFDC costs and caseloads. The fact is, however, that recent cutbacks in human service expenditures, especially in Public Assistance Programs, strongly imply that society is demanding that public benefits should be given only to those who cannot possibly help themselves. In terms of states' objectives to target benefits to the most needy recipients, this policy inhibits this objective by providing an escape to single-parent families who are able to work just because they have young children.

Currently, over 60 percent of Oregon's AFDC caseload is comprised of single-parent families who have at least one child under six years of age. Hence, we cannot aggressively pursue employment as an alternative to AFDC assistance in these cases since it is solely up to these parents whether or not they are inclined to seek employment in order to become self-sufficient.

It is interesting to note that for the population as a whole, over 45 percent of all families who have children between the ages of three and six have working mothers. This is an economic reality in our present economy where more and more women are working to either support their families or they are finding it necessary to supplement the income of their spouse in order to make ends meet. Yet, there has been no positive evidence revealed to date which even implies that the needs of young children suffer when the mother is employed out of the home.

Therefore, we believe that Congress should amend Section 402 of the Social Security Act to require single-parent AFDC applicants and recipients to register for WIN and engage in work search if their youngest child is three years of age or older. This would significantly increase the number of "mandatory" families and would have a significant potential for reducing the AFDC caseload. It would still allow single parents with infants (where the cost of day care may be very expensive) to have the option of finding employment on a voluntary basis.

C. Allow States to set fixed work search periods for AFDC applicants before they are granted assistance

States should have the option under Section 402 of the Social Security Act of establishing mandatory work search periods for AFDC applicants (unless they are WIN-exempt clients) before they are granted AFDC benefits. Oregon has been very successful in obtaining employment for AFDC applicants, thus avoiding public assistance for many clients. This is accomplished by exploring a person's employability as a possible resource in the AFDC eligibility determination process.

Although Oregon is convinced that an applicant's benefits may be delayed until his or her employment potential is fully explored through a work search plan, the law is not very clear in this area. Therefore, we recommend that the Social Security Act in Section 402 be amended to allow states up to 45 days to pursue employment for AFDC applicants before they are granted AFDC benefits. During this period of time, clients should be eligible for Emergency Assistance to take care of their needs on a temporary basis. We are also recommending that special Emergency Assistance under Title IV–A be available to AFDC applicants during the work search period without jeopardizing their eligibility for the regular Emergency Assistance which can only be used for one 30-day period every 12 months. This would result in substantial cost savings to the federal government. In many cases, a permanent AFDC grant can be avoided by granting temporary Emergency Assistance to applicants while they are engaging in work search. Many clients are reluctant to make use of Emergency Assistance to meet their needs during the application period because of the 30-day limit each year on the receipt of these funds. Therefore, if Title IV–A funds were available for temporary Emergency Assistance during application without jeopardizing the possible receipt of regular Emergency Assistance, clients would have a better incentive to seek employment as applicants before they become eligible for ongoing AFDC assistance.

D. Provide title IV–A funding for employment-related day care in lieu of AFDC assistance

Under Title IV of the Social Security Act, states have more of a financial incentive to find employment for AFDC single-parent recipients to offset the grant payment rather than find employment for AFDC applicants to preclude public assistance altogether. This is because Title IV–A funds allow day care expenditures as an offset to the AFDC grant (indirectly financing day care for AFDC recipients) but Title IV–A does not allow matching funds for Employment-Related Day Care used to avoid AFDC assistance or to close AFDC cases due to employment. As a result, states are forced to pick up day care costs at 100 percent state expense. This does not provide much inducement for states to aggressively pursue employment for AFDC single-parent families.

We believe that Congress should extend Title IV-A funding for day care expenditures used to close AFDC grants or to prevent AFDC assistance altogether. Matching funds at the AFDC matching rate should be available for at least three months of day care expenditures after an AFDC applicant/recipient is placed into a job. This will allow states to provide short-term day care assistance for families who are trying to avoid public assistance through employment but need help with day care expenses.

Mr. RANGEL. Mr. Eide.

STATEMENT OF BENJAMIN W. EIDE, STAFF ASSOCIATE FOR PLANNING AND RESEARCH, CHILDREN'S HOME SOCIETY OF WASHINGTON, SEATTLE, WASH.

Mr. EIDE. I am here today wearing several hats. One is as a staff member of the Children's Home Society of Washington, and as vice-chairman of the citizens children's services advisory committee at the department of social and health services, also as chairman of adoption resource center's steering committee.

The testimony you have heard today, particularly from Senator McDermott, has sort of stolen some of my thunder, but I would like to speak to the effects of title XX on children's services within this State.

The bureau of children's services and the State agency serves about 20 percent of the children in this State, and that is close to 300,000, about 260,000.

Title XX has historically provided 20 percent of the funding for public services. As title XX funds are reduced, and in association and conjunction with the other Federal funds, title IV, title IV-B, we are facing a tremendous problem of providing adequate services to children.

From the service provider level, once you get the trickle down from our administrative decisions, you have a feeling of not being able to provide services as needed. I served on the budget cutdown committee for the bureau of children's services, and when we ended the budget cutdown in September, we had preserved only services to those desperately in need.

Family services, you may be eligible for family services if there is violence within the family. There is no longer any availability of services, early intervention or prevention services.

As private agencies, I assume we are under the administration's umbrella of the voluntary organizations that are to step in and fill the gap. We try to but there are other things that do give us roadblocks.

The Economic Recovery Tax Act has penalized the large contributors to private organizations. They were able to get a tax credit for it, and in 1982 that is reduced by a significant amount over 1981.

Early in 1981, as we appeared to see the writing on the wall, the children's home society went out very aggressively for private contributions. In 1981 we were successful.

I am fearful that our success might not be so great in 1982 as the tax benefits do not accrue to the contributors. We also use volunteers extensively. In our agency we have 10 volunteers for every paid staff member. That pool of volunteers out there somewhere is being recruited by hundreds of private agencies in this area. There are only so many people in that pool.

I do not think that you will find the volunteer contribution of that pool as great as the administration may think it is, as the title XX cutbacks are felt in the local public service offices of the department of social and health services, and most of the local office staff of the public agencies were supported by title XX funds.

We find that the numbers are lessening, and those that remain have higher workloads. This in effect, we are pushing their workload over onto private agencies who do not have a great reservoir of funds to hire staff.

Some of the budgetary decisions made in the title XX cutbacks have some interesting effects. While foster care payments increased by 9 percent, services to children in foster care were cut by 31 percent. That is in direct contradiction to Public Law 96-272, child welfare laws.

Family reconciliation services, family support services are not fair. I doubt that they will be put back in the near future. We have found a short-term solution, but I hesitate to think what the long-term effects may be.

[The prepared statement follows:]

Statement of Benjamin W. Eide, Staff Associate for Planning and Research, Children's Home Society of Washington, Seattle, Wash.

My name is Benjamin W. Eide. I am employed as Staff Associate for Planning and Research by the Children's Home Society of Washington. CHSW is a state-wide voluntary, private, non-sectarian child welfare agency with multiple child welfare services (residential treatment, group care, several types of foster care, adoption and services to parent(s) and children in conflict). The Society was chartered by the State of Washington in 1896 to serve homeless and dependent children. In almost 86 years, services of the Society have changed though its mission remains the same-protecting and promoting the lives of children by providing services to children and their parents.

I am a social worker with a Master's Degree in Social Work and have practiced in the field of child welfare in the State of Washington for 25 years. During that time I have been promoting services to children and their parents through legislation, teaching, direct service, and administering and supervising programs for children. I am Vice-chairman of the Citizens Children's Services Advisory Committee to the Department of Social and Health Services, State of Washington; Chairman of the Region X Adoption Resource Center Steering Committee; and member of the Steering Committees for the Foster Care Resource Center and the Northwest Adoption Exchange. In addition, I am involved in other community planning and child efforts in this State.

During my testimony today, it should be understood that I speak for myself, not for any other person or organization. Whatever statistics I give and the interpretations thereof, are my own responsibility. However, statistics are based on material from the DSHS.

Since May, 1981, I have been serving on a small committee whose objective was to build cut-down budgets for the Bureau of Children's services, DSHS, State of Washington. The first major task was to build a cut-down budget reflecting the anticipated reduction of federal funding in the State's child welfare services. The second major task was to build a children's service budget reflecting further funding short falls from the state government. In the ensuing months, these two funding short falls (federal and state) have become so mixed it is difficult to speak of one without including the other. In addition, the mix of services affected by all federal short falls is so pervasive (nutrition, medical, AFDC, child welfare, adoption assistance, education, social services, etc) that it is impossible to talk about federal short falls in Title XX without bringing in the affect of other federal short falls for children in need.

Children's Services in the State of Washington utilize Title XX funds in the following services (possibly not a complete listing):

Service	Percent program funds from title XX funds	
	Fiscal year 1982	Fiscal year 1983
Family reconciliation services (contracted)	75	75
Family reconciliation services (direct services)	24	23.6
Homemaker services (direct services)	75	75
Child protective services	75	75
Foster care payments	4	4
Foster care (direct services)	75	53
Adoption support	2	2
Adoption (direct services)	75	75
Staff training	75	75
Vendor training	75	75
Child day care payments	80	80
Child day care (direct services)	75	75
Administration	62	62
Total percent title XX funds in overall bureau of children's services budget	33	32

A second way to look at the seriousness of the Title XX funding, is that almost all of the direct service providers in child welfare in the local service offices are funded through Title XX funds. A reduction in these funds means less service providers and more work for the remaining service providers. There will be less time available to help children and parents in need of services in order to maintain their family life and living together.

In addition, service programs funded exclusively or mainly by state funds are affected by federal short falls in funding as available money is re-distributed among porgrams. Some programs will be damaged for lack of funding. Some of them are preventive and early intervention services designed to keep the family problems from worsening. The real victims of money short falls in the State of Washington are the Victims of Domestic Violence programs and Special Projects in Child Protective Services.

Programs receiving other federal funds within the Bureau of Children's Services also suffered by realignment of available funding in the budget cutback process occasioned by lessening federal funds. Through this process, preventive services were all but wiped out in the State of Washington. It was only possible to maintain services for those children and parents most in need. It is possible that in the future, only those families who exhibit conflicts through the use of violence, will be eligible for services from public agency. Those programs affected by other federal funding cut-backs are:

Family Reconciliation services (direct services), Title IV-B;
Crisis Residential Centers, Title IV-B;
Foster Care Payments, Titles IV-B & IVE/A;
Adoption Support, Other Federal Funds (Presumable Adoption Assistance Act);
Administration, Other Federal Funds.

It is unfortunate for those who want to know only about the affects of Title XX will be frustrated by the seemingly unability of people to speak directly to that issue. The reason is the overlap and joint utilization of all federal funds to provide services to children on the direct service level. It is there the effects of such funding are most seen and felt. Additionally because of this overlapping of services, arriving at the number of individuals which will be affected by Title XX cuts, is also nigh impossible. It takes a great deal of extrapolation and without sophisticated statistical procedures and equipment only an approximation can be obtained. Because of these two elements, people affected by them respond emotionally and non-objectively and have difficulty in being precise.

96,139 plus individuals are affected by federal cut-backs and consequent state cutbacks in services provided by the Bureau of Children's Services. Of this number 84,730 individuals are directly affected by Title XX funds—88 percent. Again, of the 96,139 individuals, 62,339 individuals are being affected by cuts in other federal funds (Title IV-B, IVE/A and others)—65 percent.

Some examples of the affects of federal cuts are:

Family Support Services (a component of Family Reconciliation Services) is considered for elimination. The service costs $276,486, 11.2 percent of costs in family

Reconciliation Services and 11 percent of the $207,364 federal funds in that program. 423 families will not get service.

Seasonal day care (farmworkers) will be maintained as is with no additions. $435,262 Title XX funds involved—11 percent of federal funds in program. 275 children a month will be affected. Reservation day care eligibility will be lowered. $42,429 federal funds involved and 30 children per month. The result will be unsupervised children while parents are working.

Early Periodic Screening and Diagnostic Treatment (a special Medicaid program for finding and treating health problems of children) will become a minimal information and referral service. $255,691 federal funds involved and 5,883 children.

Family Planning Services will be reduced to a minimal information and referral service. $118,892 federal funds involved and 3,969 clients.

A simple arithmetic computation of the individuals served by BCS in the above 4 examples, will see 10,728 children affected by reduced or denied services. Mid 1981 estimated that as many as 1,000 children would not receive reunification services in foster care due to staff and service curtailments.

It is estimated there are 1,295,600 children age 19 or under in Washington State. A 15 percent increase is projected in that age group by 1990. It is estimated the BCS serves just under 20 percent of the current population or 259,120 children. A 25 percent reduction in federal funding provides reduced or no services for 64,780 children in the State of Washington. Projecting that number up to 1990, is painful but it can be somewhere in the neighborhood of 260,000 children lacking growth and sustenance services in Washington State in the next years if this situation continues.

Although budget figures in terms of dollars are actually higher by 6.6 percent, this is below inflationary rises and in itself creates more problems of providing services as well as increasing the probability of lesser numbers of people getting needed services. In Washington State where unemployment runs high, slightly above 9 percent for the state (but individual counties running up to 20 percent or more) any reduction in services to protect the family takes a high toll among the residents and generally children are the first to suffer. Unemployment and lack of resources (which includes those services provided by the public agencies) creates family conflict leading to family breakup. If parents are having trouble maintaining the family, they will put children in out-of-home care as a means of providing them with life essentials they cannot. As funding dries up for foster care or any other out-of-home placement care facilities, those first line resources also dry up. As a consequence, more family violence occurs as families are reduced to basic survival struggles which taxes and takes away the energy which before had gone into maintaining family harmony and autonomy. It is catastrophic to our basic caring and developmental unit for the children and their families.

Anomalies exist within programs due to Title XX funding cuts. While foster care payments funds increase 9 percent, foster care direct service funds are cut by 31 percent. It does not take much imagination to foresee more unsupervised foster care placements in the future which is contrary to the intent of PL 96–272. Added to this the aforementioned loss of family support services (AFDC, Family Reconciliation Services, Day Care, etc.) can only bring about more out-of-home Placements, runaways, child abuse, child neglect in the near future. If we can prevent more out-of-home placements but not provide the family support services required by the family problems, we can expect an increased incidence of family violence, street crime, parental desertion, fraud, etc.

The voluntary, private agency sector is being asked and will attempt to meet the increased service demands made of them as public services dwindle. Historically, the private social service and/or human service organization was utilized to enrich, enhance and complement public agencies services not to provide them as we are now asked to do. To replace public services, private agencies need more dollars and more staff. In our present economy, private agencies are in stiff competiton which each other for the available pool of monies and volunteers to provide such services. More than ever, due to inflation and other reasons (one being the reduction in tax ERTA on contributions in 1982), sources of private funding are getting harder and harder to find and when found, they are cautious of allocating their funds.

Some private agencies whose budgets were largely dependent upon vendor rate income from the public agency, will undoubtedly collapse and close their doors thus creating yet another lack of resources for families in trouble. Those that remain will have a difficult time obtaining necessary funding. Another possibility is that the private sector may see once again an increase of mercenary and unresponsible child care organizations whose interest is in themselves rather whom they serve. It will be necessary to keep a watchful presence in order to protect children who are admitted to such facilities. Just a few years ago, Congress itself investigated the damages and injuries inflicted upon children by unsupervised, unmonitored and unscrupulous organizations which passed as child treatment facilities. If a state is concerned about the welfare of their children in out-of-home placements, it will require an increased monitoring of such agencies but there is no money to do so.

An already real effect of Title XX short funding in the private sector, is related to the local direct service providers in the public agency. As their number lessens and those left have increasing work loads and work demands, children are being referred to private agencies without any preparation. Good practice has always required the private agency to confirm a previous workup on the child referred for placement and to assess the appropriateness of the requested placement. Such a reevaluation was built on what was already known from the public agency making the referral. Now, private agencies are referring children with a minimum of information, directing placement be made and setting unrealistic treatment goals or treatment duration. The rationale given is that the public agency staff does not have time to do otherwise. Private agencies are involved in non-productive and expensive work which eventually cost the communities a great deal of money. Yet to comply with PL 96-272, the public agency has a need to control child placement which leads to some amazing convolutions in communication, procedures and very confused consumers. Just in the past few days, a referral was received from the public on an 8 year old boy who had attempted suicide and required 17 stitches to close the arm wounds. The public agency stated the maximal treatment length would be "from three to six months" demonstrating complete ignorance of child placement and child treatment.

Those agencies such as mine, which have other family support services like a Parent Aide Program for abusing and neglecting families (a 100 percent volunteer program) are facing unprecedented demands for service as the public funded agency is unable to serve them and refer them out to the community. Response time is slower, waiting lists are longer and what could be direct service time is going into recruitment for new and more volunteers. Public agencies are increasing their requests of transfers of children to private volunteer agencies' foster care programs as they begin to be unable to give the same kind or amount of service. Service providers, whatever their agency, are concerned about children, want the best for them and strive to get it for them. What they are beginning to meet now and what will become more usual in the future is the drying up of time honored resources and they look in vain for the "safety net" that is not there for children.

In my career in child welfare (which to me is a unique field of work with excruciating demands on the physical and mental energies of the service providers) I am seeing a country saying to its children, "Sorry, but make it the best way you can. If you survive, we leave the future to you." This country has never adequately, let alone, fully provided for all its children, our supposed national treasure and hope for the future. Title XX cut-backs do much in telling us we think little of our treasure and less of our future.

Expecting the voluntary field of human resources to fill in the gaps of funding and services caused by lack of funding at federal and state levels, is attempting to impose a 19th century concept of voluntarism and community involvement that was already failing at the turn of the century. We will do our best but I'm afraid our best will be sadly lacking when the future looks back on us and assesses our institutional abuse and neglect of children. Some of those future assessors will be those we now deny. I do not wish to hear it. By reductions we may have arrived at some short term solutions to our country's financial situation but speculate on what the long term results may be.

Mr. RANGEL. Thank you.

Mr. Hobson.

STATEMENT OF WILLIAM HOBSON, DIRECTOR, CENTRAL SEATTLE COMMUNITY HEALTH CENTERS

Mr. HOBSON. That is correct.

Mr. Chairman, honorable members of the committee, Congressman Lowry, panel members and fellow citizens, my name is William Hobson. I work as an administrator for a consortium of five community health clinics which provide comprehensive health services to low-income residents of the Seattle area. Those served by our system include all categories of medicare and medicaid beneficiaries and others who do not have adequate incomes to purchase medical services from private physicians.

Our clinic system focuses on specific groups such as the downtown elderly, the Spanish-speaking, Southeast Asian refugees and several low-income neighborhoods in Seattle. The care that we provide is personable and accessible. The cost of the care that we provide is low due to the extensive use of midlevel practitioners—such as nurse practitioners and physicians' assistants—and due to the below-market-scale salaries that we pay our staffs.

Having lived and worked in many sections of our country I can say that residents of this county enjoy one of the most extensive networks of community health clinics to be found in any metropolitan county. These organizations exist because of the dedication of our communities to the health needs of the disadvantaged and more importantly because of the great need for acceptable, affordable and accessible health care among this county's low-income population. Without both of these factors, the 20 primary care centers now serving over 50,000 King County residents would not exist.

Currently, 40 to 60 percent of the average patient load of our community clinics are title XIX eligibles. As our service population with medicaid has grown, our reliance on medical revenues has grown proportionately. Right now, demand for our services is increasing across the board and cuts in basic funding sources are being made across the board.

The same inflation rate that makes your health care costs spiral is felt in our pharmaceutical, medical supply and equipment budgets. Several successive years of budget cuts have eliminated all but the most basic services in our community clinics. The latest round of medicaid cuts will take an additional $4,000 to $10,000 from each of our clinics' annual revenues. The sum of these factors seriously jeopardizes the continued existence of our community clinics at a time that our citizens are most in need of their services.

The Southeast Asian refugees are a population group of special concern to our community clinics. In response to the rapid increase in numbers of this population we have developed the Indochinese language bank project. The staff of the language bank is composed primarily of former refugees, some of whom speak three languages. The services of the language bank staff are essential to enable our medical providers to provide accurate health care for Southeast Asian refugees. The refugees may have many rather complicated health needs and may require lengthy encounters with our medical providers.

Elimination of medicaid benefits for Southeast Asian refugees would have a major impact on our ability to integrate large numbers of refugees into our practices. The lengthy nature of a refugee encounter would put pressure on a community clinic to cut back the number of hours allocated to this activity if reimbursement potential was slashed.

Alternatives for the refugees would be limited to care provided from a large, impersonal hospital which may or may not have translation capabilities or from a private physician's office where no translation is available. We have found that without medically trained translators, the care provided will be less than accurate. Family members are of limited value for medical translation

The combined impact of Federal and Washington State medicaid cutbacks brought about the termination of adult dental benefits on March 15, 1981. At that time there were 10,665 adults in the State and 3,500 in King County who received dental services monthly. Statistics showed that as of June 1981, over 42,000 adults were theoretically eligible for dental services in King County although none received dental care under the medicaid program.

This situation has greatly increased the demand for dental health care at the five dental community clinics in King County. The extensive waiting lists at each of these sites will not allow for much relief to those who can no longer get their care under medicaid from private dentists.

These events have provided perhaps the most graphic example of what happens to those medicaid-eligible individuals receiving health care through the private sector when coverage is eliminated. Private sector participation in providing care to the disadvantaged diminishes when the medicaid reimbursement is curtailed.

I could provide you with more specific projections of title XVIII and XIX revenue losses at each of our centers. I will not detail our losses further as I am sure that these figures will be soon outdated by the next round of budget cuts that will be allowed by your colleagues who are so enamored with defensive hardware and so disaffected by the needs of the disadvantaged. Instead, I would like to make several recommendations which might make the programs under your jurisdiction more efficient and effective in serving those entitled.

These recommendations are as follows:

First, do not continue to patch up the old AFDC program with its incentives to separate the fathers from the family but rather develop a new program with incentives for keeping the family together.

Second, replace the current fee-for-service, medicaid and medicare programs which reward medical providers for care of sickness with a program carrying incentives for keeping a family well.

Third, allow the medicaid and medicare programs to reimburse the costs of providing translation services in the provision of outpatient health care for non- or limited-English-speaking individuals. Incentives should be developed to promote the use of trained medical translators and/or bilingual practitioners. Time saved in the patient encounter and increased accuracy of care provided should compensate for these additional expenditures for translation services.

Fourth, replace the early periodic screening, diagnosis and treatment—EPSDAT—program with one that works. Make sure that all low-income children in our country have regular health screening with provisions for followup care.

Fifth, provide incentives to our States to lower the cost of medical services for Medicaid and Medicare eligibles through the institution of realistic pre-paid contracts with providers.

Sixth, make the following changes in the medicare program:

(a) Eliminate the deductible for all low-income elderly because it serves as a deterrent for getting regular care and maximizes crisis oriented care which is more expensive.

(b) Provide coverage for dental care, optometric care, chore services, hearing aids and eye glasses because they keep our elderly more self-sufficient and less likley to need expensive institutional care.

(c) Provide coverage for pharmaceuticals and require that they be of the generic type to save resources.

Thank you for this opportunity to express my views.

Mr. **Rangel.** Let me thank the entire panel for the quality of testimony which you have presented to us today.

Not only have you demonstrated a deep-seated, sensitive understanding of the problems of the unemployed, the poor and the sick, but just as importantly, each one of you addressed the cost-saving aspects of some of the programs which have been cost effective. Certainly, it is best to get people off of welfare by providing incentives to work or get kids on the right start in their own home as opposed to an institution. All of you have indicated the short-sightedness of some of the cuts that have taken place.

I am going to ask my staff to pull all of this together, and I want each one of you to feel that our record will remain open, in case you have any other suggestions following that same line of thought that your testimony presented, i.e. the shortsightedness of the cuts.

Personally, I would like to say, it is unbelievable that you should have to beg for funds for refugees. Any city, any town, any county that has the compassion to open up its heart and share the little that you do have with foreign people because of their dilemma should not have to ask your country to come forward and to share some of that burden with you. I for one have been impressed that with all of your local problems, you still found enough time to come in and testify on behalf of the people that have more problems.

Ms. **Thode.** One word, I would suggest that implementation of the original version of the Humphrey-Hawkins Act would do more to reduce the cost of welfare in this country.

Mr. **Rangel.** I assume you support a national health insurance system, too?

Ms. **Pratt-Marston.** Yes.

Mr. **Rangel.** Are there questions from the committee?

Mr. **Gradison.** I, too, would like to think the panel, and in particular, those who have given us very specific ideas for changes in those programs, some that would cost money and some that would save money.

I want to assure you that your written statements will be included in the record, and we will be reviewing them individually with our staffs.

In particular, Mr. Putman mentioned six points, and I want you to be aware that this member and I are sure all of the members of our committee that are here appreciate this.

I would like to come back to this employment question, and perhaps I will direct this question to Ms. Marston because you were talking about the problems of employability and the distance of travel.

You testified before us, and you are very well informed about these programs and very experienced and very articulate. I would appreciate any comments you might make based on any personal experiences regarding the ability of AFDC recipients to get and keep a job.

Ms. **Pratt-Marston**. First of all, there has to be training available that is going to lead to something more than a minimum wage job which is a real problem women face, and second, there has to be daycare provided and other expenses and transportation for that training, and there really has to be a job there which is probably the biggest problem, and we need to have more jobs.

The trickle-down theory has not historically worked for low-income people and I have some question as to whether it will magically work this time around.

I am extremely concerned that there be a reasonable way to deduct those expenses that are incurred. Previously, the Federal law said any expenses reasonably attributable to the earning of income shall be deducted when determining eligibility. That to me is extremely reasonable. If they have a standard amount and say it is going to be this much but if you can prove your expenses are this much, it makes a lot of sense to make that woman employable. Because the more she builds up, the more income she will make and be off assistance pretty soon.

That is tremendously important that there be something for us. Many places do not have public transportation, and we have to get old cars and the old cars break down and if we cannot get them fixed and if part of that does not turn out to be an expense of work, we cannot fix it, and we are unemployed again because we cannot get to work.

It has been the frustration of many of us who live outside areas of good public transportation that we really are stuck when it comes to this.

The other thing that is happening in getting in the way of employability, I do not always agree with the WIN program, but it has done some very good things for me lately, but because of cuts at the Federal and State level, where I live the employment security office is closing and the WIN program, therefore, because we still have this program, we no longer will have a WIN program plus DSHS.

Mr. **Gradison**. Are you currently employed?

Ms. **Pratt-Marston**. I wish I were. I am employable. I have professional credentials, and I would love to have a job.

I have applied and applied. The WIN office retypes my résumé and Xeroxes my letters of reference, and it is extremely frustrating when you are a competent person, and have good letters of reference, but you cannot get yourself into the work force. Not everyone on AFDC has no skills, but we are all stuck because of no jobs.

One other thing, people say you are staying on and on welfare. AFDC was a temporary program which turned into a long-term program, that is not what we want to be.

Mr. **Hance**. Send me your résumé.

Mr. **Rangel**. Let us hear from Labor.

Mr. William Wickline, business agent, International Woodworkers of America, Local 3-9.

Thank you for your patience.

STATEMENT OF WILLIAM WICKLINE, BUSINESS AGENT, INTERNATIONAL WOODWORKERS OF AMERICA, LOCAL 3-9, TACOMA, WASH., ACCOMPANIED BY EDDIE PRESTON, FORMER SHOP STEWARD, ST. REGIS PAPER CO., AND CLARENCE E. STEVENS, EMPLOYEE, ST. REGIS PAPER CO.

Mr. **Wickline**. I am not going to bore you with a bunch of statistics.

As I mentioned earlier today, the Woodworkers' Union and the woodworking people in general have been through many of these hearings over the last 3 years, and we hope that they may have had some kind of impact on the Government as far as lowering interest rates.

Interest rates in our minds have a direct impact on the housing market, and because of the reduced housing, building of houses, our workers have been laid off in the mills.

Going back to November 1979, I first experienced a layoff of 30 people. Since that time, we have had various layoffs, anywhere from 30 to 200 people in our mills.

Currently, last September 300 people were laid off in the sawmills indefinitely. Today only 80 of those people have returned.

During the early years 1979 and 1980 and part of 1981, to put our people who were unemployed, we had to find them service to help them through their period of unemployment. Since September, the Federal budget cutbacks have trickled down through the States, those special services have all been wiped out, and are no longer there for the people.

Mr. **Rangel**. You mean training services?

Mr. **Wickline**. Training services, and even those persons whose unemployment benefits have run out.

Just the other day, I took one of our persons through the welfare system and believe me, a light shined on me in essence, because I probably as a worker before felt, looked at welfare as one thing.

The other day I found quite something else there. It is a mess. All the frustrations of going through welfare, this one person in particular had $280 given to him and it is a one-shot deal.

My question is, Where does this person turn after this money is gone? His unemployment is gone. He cannot find a job. There is a problem there, gentlemen, and who do we look to for the answers?

Enough of my speaking. Eddie Preston, one of the unemployed workers, and Mr. Clarence Stevens, more than just letting the statistics roll out here to you people, the most effective testimony comes from that of the workers.

Mr. **Rangel**. Let me hear from Mr. Preston.

Mr. **Preston**. I am a shop steward for International Woodwork, Local 3-9.

I have 50 people that are under me for their rights on the job. Since these people have been laid off, I have been around to see what needs that they need.

Mr. **Rangel**. What kind of work do you do?

Mr. **Preston**. I am a machine operator.

Many of these people are in dire need for subsistence, and most cannot get any kind of assistance because they have some rule in the State about a $1,000 deduction, and these people are buying their homes and automobiles, and they cannot qualify.

There is nothing we could really do for them except go from one public assistance to another one to find out what we can do immediately to help them out.

On my right is Mr. Clarence Stevens.

Mr. **Rangel**. Let's hear from Mr. Stevens.

Mr. **Stevens**. One of the things that we have failed to address ourselves to in this whole session today is, where is the money coming from?

All right, we have talked about raising taxes, cutting benefits, raising benefits. It all has to be paid for.

You have to have more people in the work force; and if you are going to have more people in the work force, you will have to have more jobs. Where are they coming from?

One of the detriments to more people in the work force are these high interest rates, and specifically speaking about the lumber industry of which I am associated with, employed by St. Regis Paper Co., that we need those rates down that were spoken about before, between 10 and 12 percent. Otherwise, the people who are the potential employees are also potential buyers of homes and lumber, and therefore, the market will be available.

The situation is such now that people who bought a house as little as 2 months after I did, which was 11 years ago, paid 3 percent more than I did, and I thought gee, 8 percent, that is really something. How can they afford that? Now there are people who would like to buy houses at 12 percent and they cannot get them.

The only way we are going to do this is that the Federal people are going to have to say look, we are going to drop the rates of interest down to a certain level that certainly has to be below what it is now, 17 or 18 percent, whatever it is now for FHA and GI loans, which most of the people nowadays are qualifying under.

The money situation would become available by the fact of people being out there able to buy and that would reflect back into the market and production back in the mills and so forth, and we would have further people employed.

Now, we have always said, OK, we do not want the Government out there putting a lot of money. That creates inflation. By dropping the interest rates down, the money would become available without printing any more money, so I, therefore, think the high interest rate policy of stopping inflation is a bunch of political rhetoric, and I cannot really see that the high interest rates are doing anything more than creating high unemployment.

Mr. **Rangel**. Thank you.

Mr. Hance.

Mr. **Hance**. No questions.

Mr. **Rangel**. Mr. Anthony.

Mr. **Anthony**. Mr. Chairman, I want to thank you for an economist's viewpoint that I can understand.

All the other economists coming before our committee, they bring charts and graphs and they go into all sorts of fancy theories, but you have zeroed right in on it, and unfortunately we have known all last year and the first part of this year that high interest rates was the cause of a lot of our country's ills.

We have not figured out how to get the interest rates down yet. We are working on it but some of the testimony that has come out today really does put it in perspective.

Mr. **Rangel**. I think you also zeroed in on something else. So far, the only way that we have been able to find to cure inflation is to create a recession with high interest rates and high unemployment. All of the economists need to go back to the drawing board and see if we can find another way to finetune a program without creating a recession, and creating high interest rates and high unemployment.

Mr. Lowry?

Mr. **Lowry**. One question: Fifty people unemployed in your local?

Mr. **Preston**. Three hundred in the local, but 50 people directly under me for shop steward advice.

Mr. **Lowry**. Why can't they go find a job someplace else?

Mr. **Preston**. There is none.

I, myself, am looking for a job.

Mr. **Lowry**. We see those ads for all these jobs.

Mr. **Preston**. I, myself, went out and applied for jobs like that, and I am 55 years old, and I have 12 years with St. Regis, and they know that when St. Regis opens up, I am going back.

Plus, most places you go to, they have a sign on the door, "No applications accepted."

Mr. **Lowry**. Thank you.

Mr. **Rangel**. Well, I do hope, through your union structure, you are able to get your message to your national leaders as well. We need a lot of help in Washington.

Thank you for your patience and your testimony.

Mr. Gradison?

Mr. **Gradison**. I have no questions, but I would like to join with you in thanking the witnesses.

I have in my district a large Formica company which makes plastic laminates, and it is heavily impacted, although in a different way, by the cutback in housing.

It is not in direct parallel to the lumber industry, but your testimony struck a familiar chord.

It struck me very forcefully in spending time at that large Formica plant; I have been unable to detect any real difference in terms of the views of the management or the employees as far as what policies they feel are necessary.

There is a message in that decree in common vow.

Mr. **Rangel**. Thank you.

The last panel will be David Shurtleff, of the Orthopedic Hospital; Ms. Mary Malarkey; Ms. Ronni Gilboa; and Mr. Michael Reichert.

STATEMENT OF DAVID B. SHURTLEFF, M.D., CHILDREN'S ORTHOPEDIC HOSPITAL & MEDICAL CENTER, UNIVERSITY OF WASHINGTON

Dr. **Shurtleff**. Thank you, Mr. Chairman.

I am a professor at the University of Washington, in charge of the handicapped program, and I serve as the fulltime director of that program for our large regional hospital.

It is on the map describing 23 percent of the land mass of the United States—Alaska, Montana, Washington, and Oregon—which is the only area that is served by one medical school.

I will allude to the statement in a few minutes and include the statement in the record.

Mr. RANGEL. Without objection.

Dr. SHURTLEFF. I would like to agree with Mr. Polk and disagree with Senator McDermott, and I agree with Mr. Weyerhaeuser.

Mr. RANGEL. Start that all over again.

Dr. SHURTLEFF. I would like to agree with the Honorable James McDermott and disagree with the Honorable Polk.

I would like to agree with Mr. Weyerhaeuser.

I also agree with the last speakers in terms of controlling inflation rates.

This current year I took a 17-percent cut in my voluntary agency grants with exactly the same granting money. We had to make up salary deficits mandated to the State of Washington. I had to take those inflationary cuts. If we continue to destroy the program at that rate, we are in trouble.

We are going to take a 47-percent cut in the maternal child health programs, which I am affiliated with.

In addition to that, we will take a 40-percent cut in one of the major voluntary contributors to our program.

These cuts will affect directly patient care programs that you heard about.

On page 3, of my prepared statement I tried to illustrate that I am not interested in some of the grand things that go on in this country, like I know you are trying hard to recruit my son to drive a multimillion-dollar tank that goes 6 miles on 1 gallon of gas.

I want my children just to sit. Internal parts can make that far more effective.

It cost us 10 years ago $30,000 to do a spinal fusion. Now it costs us only $10,000.

Our technology in this country is solving our problems, but there is a small discrepancy between priority and solutions.

The next case on the next page of my prepared statement is a discussion of talking with computers. How can you learn unless you can speak? These devices allow people with cerebral palsy to touch a light, or touch a device which will trigger words, allowing a video display of their language.

These machines cost $4,800 apiece, and they are currently not paid for by those people who are on medicare. There are not enough funds.

In terms of mobility, getting around in a simple fashion, we sit in a city that built the 4-wheel vehicle, millions of dollars to move the people that walked on the surface of the moon.

My kids can't buy a wheelchair for $4,000 to get around in their own community. I think these are examples of setting priorities.

On pages 6 through 8 of my prepared statement we demonstrate cranio-facial surgery on a girl from a town that had 50 people. The family paid for that operation, $12,063. The child on the same page was provided that care but is not eligible for Federal funds—obviously a minority person, a person who is not eligible. Why? Because we don't have enough Federal-State money to pay for that category of care, so those funds were taken from a voluntary agency, and the doctors and surgeons took care of the child for free.

Page 8, photograph 12, of the prepared statement I hope will stay with you, a severe defect, more common along the western border of the United States, including Alaska.

I hope that you can help me solve the problem of funding care for these children.

Pages 9 through 12, I documented very carefully a model population of 750 patients, a collaborative study of children in Chicago at the Children's Memorial Hospital with myelodysplasia.

These children, that used to die, now survive at the 90-percent rate.

The medical care that we provide these children in the long term—over 20 years—is far less expensive than taking custodial care of the 10 or 15 percent that live in misery, without medical and surgical care.

Mr. RANGEL. Why can't the voices of your colleagues who have a better understanding of the work that you are doing get together and attempt to have the rest of the country understand the cost of institutionalizing human beings?

I don't want to interrupt your testimony, but it seems to me that there are associations in the United States that know what you are testifying to a lot better than we do, and they have been very silent.

These people are not even supposed to be involved. They are protected by the safety net.

Dr. SHURTLEFF. I would like to make a flat statement, if I could: The gaping hole in that net is so big that I see literally dozens of children falling through, and I am having more cases referred to me, so that, in the first quarter of this year, I have obligated all of my voluntary health agency funds for the rest of the year. I don't know where additional funds to meet the needs are coming from.

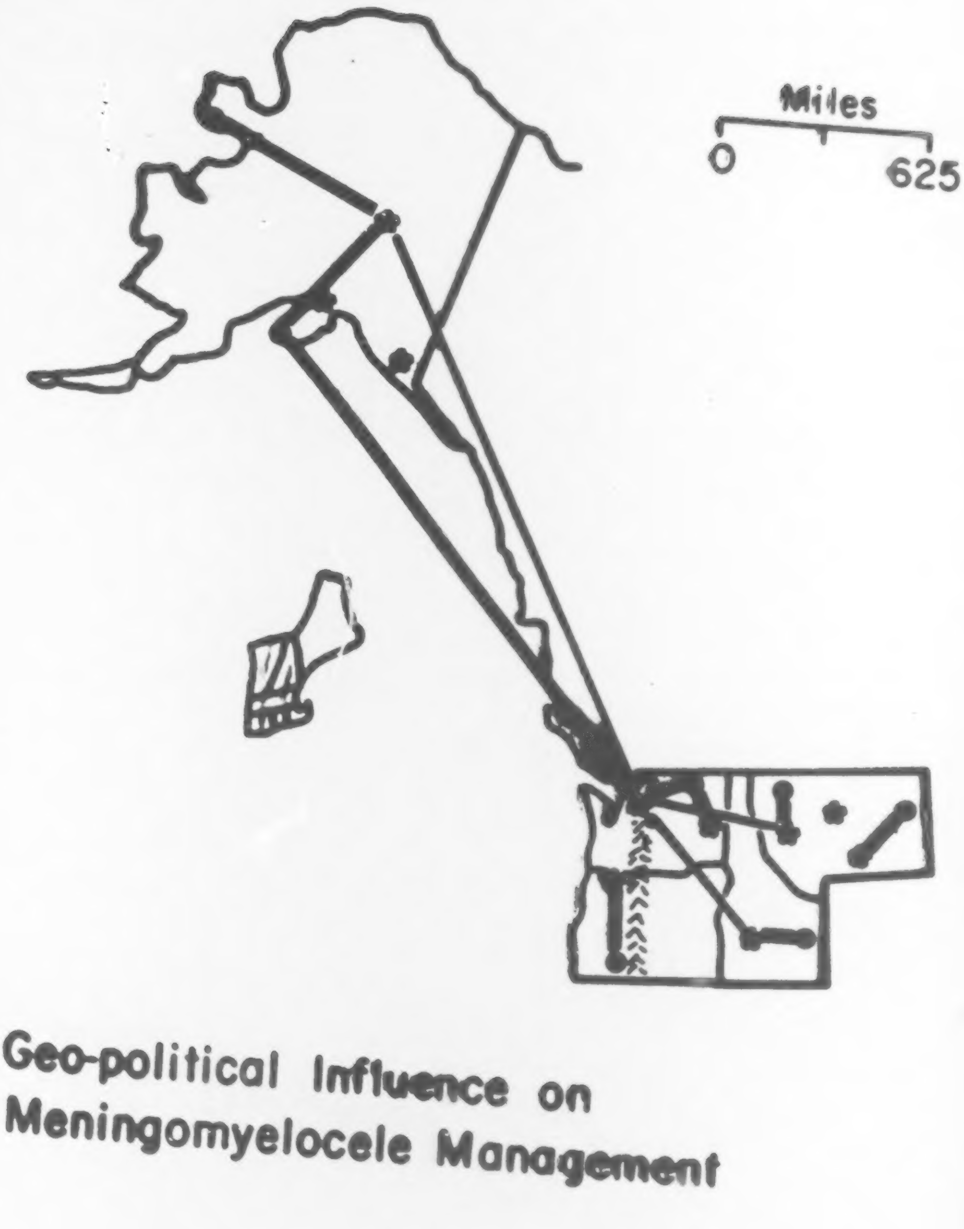
Mr. RANGEL. I would want staff to submit your testimony to the American Medical Association, and I want to know what their response is to this.

Please proceed.

Dr. SHURTLEFF. You have made my point. The last two tables are strictly statistical tables telling you of a $2½ million increase from a $1 million program since 1978, at a time when we have had an increase in referrals of about 20 percent per year, meaning that these services are desired, and we are even having children come from Oregon, who have no money, because they are shut out from care locally by lack of funds. They are not eligible for reimbursement for treatment any longer at the University of Oregon. I do not know where the funds are coming from, certainly not from my voluntary agencies who are asking people who are out of work to contribute to the care of patients.

Mr. RANGEL. Thank you.

[The prepared statement follows:]



Geo-political Influence on Meningomyelocele Management

PROGRAMS FOR THE DISABLED AND HANDICAPPED CHILDREN OF THE PACIFIC NORTHWEST

A statement by David B. Shurtleff, M.D., In
testimony before the Ways and Means Committee of the
United States House of Representatives
January 19, 1982

I am David B. Shurtleff, M.D., Professor of Pediatrics at the University of Washington. Since 1965 I have been Head of the Division of Congenital Defects within the Department of Pediatrics of the University of Washington and since 1976 of the Department of Medicine of the Children's Orthopedic Hospital and Medical Center, as well. I finished my training at the Massachusetts General Hospital, Boston in 1957. After two years in the military service, I joined the faculty here at the University of Washington. Since that time I have been Director of a March of Dimes-Birth Defects Foundation-sponsored Pacific Northwest Special Treatment Center program that studies and provides direct medical and surgical treatment for children born with a wide variety of congenital defects. We have developed a four state network of care covering 23% of the land mass of the United States as illustrated on the cover of this statement. This sparsely populated area includes a varied geography and contains relatively isolated subcultures. The total population according to the preliminary reports of the Bureau of the Census is approximately six million with four million residing in Washington State and approximately one third of those persons in the greater Seattle area. This area, Washington, Alaska, Montana, Idaho (WAMI), is served by one medical school. As the cover map suggests, we have a geographic and transportation problem which is unique when compared to the densely populated east where approximately 14 centers serve an obviously much smaller land mass such as the New England area (drawn to scale on map).

Our Special Treatment Center provides consultation and treatment, when not available locally, either in our Seattle facility or in one of 44 local clinics held in 33 geographically distinct cities, towns or schools. Currently I serve on both the Professional Advisory Committee of the Spina Bifida Association of America and as Co-chairman of the Health and Prevention Committee of the Washington State Developmental Disabilities Planning Council. My major academic effort has been the study of the care of children with handicaps. This work has been recognized by peers in the form of a research award from the Western Society for Pediatric Research. Our program currently involves a study of the health care delivery for handicapped children in collaboration with the Royal Children's Hospital, Melbourne, Australia, the Children's Memorial Hospital, Chicago, and Shriner's Unit, Honolulu, Hawaii.

It is a privilege to appear before this committee to discuss the impact of our local economy and state/federal financing on programs for handicapped children in our region. Because my 20 years of professional life have been limited to studying handicapping conditions, I will speak only from my own experience. I formally represent no organization, group or hospital. I do speak on behalf of handicapped children.

NEED FOR ALL CHILDREN

This is a particularly important time to discuss the care of handicapped children for three reasons:

1.) Children are becoming individually a more valuable population as the proportion of children born becomes smaller in the United States.

2.) Expensive technology can prevent and ameliorate handicapping conditions of childhood, thereby allowing handicapped children to grow into productive adult citizens.

3.) Inflation and unemployment are decreasing the purchasing power of the limited voluntary health agency dollar. That restriction together with anticipated decreasing eligibility of the handicapped for Medicaid and Crippled Children's Services limit our ability to care for children born with congenital or acquired handicaps.

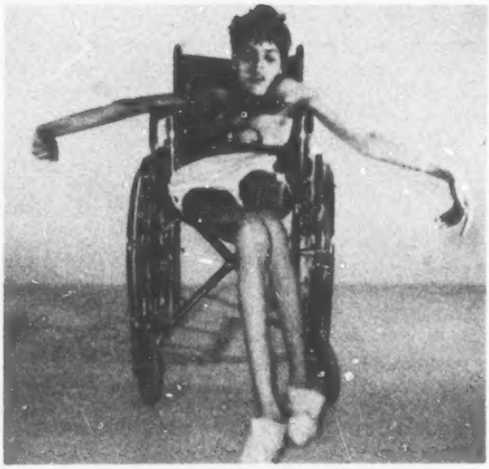
I.) DECREASING PROPORTION OF CHILDREN IN THE U.S.A.

By 1980, the number of children under age 15 in the United States had decreased to about 22% of the population. When compared to prior years and projected into the future, we can estimate a proportionately smaller work force supporting an ever increasing population of elderly. Currently young families are having fewer children. Both society and these families must value the smaller number of children more highly. A few decades ago in the United States (before the control of infectious disease), larger numbers of children were born with the expectation that some of us would die during childhood. As technology allows our collective live spans to elongate, we must insure that each child is maximally employable.

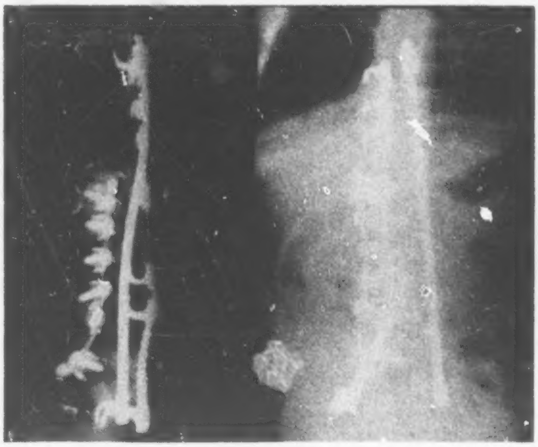
II.) MODERN TECHNOLOGY AS IT EFFECTS OUR POPULATION

In order to communicate to this committee the unrealized potential of medical technology in solving some of the problems of handicapped children, I would like to briefly describe four types of problems and their potential solutions. These four case problems illustrate how we can prevent mental retardation and how we can provide handicapped children with the potential to become, for a price, competitive productive adults.

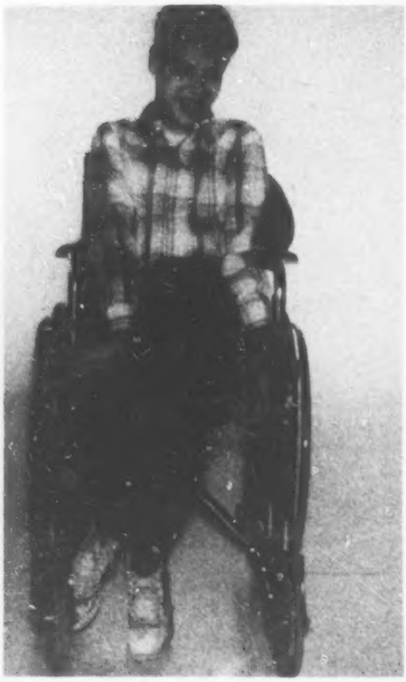
CASE 1



Photograph #1



Photograph #2



Photograph #3

Case 1

Progressive growth and development is essential to allow a child to become an adult. R. is a teenage boy unable to sit or talk effectively because of muscle impairment called spasticity or cerebral palsy. The Photograph #1 illustrates his inability to sit preoperatively. A complex set of metal cables and rods was inserted by an orthopedic surgeon to straighten his back (the x-ray, Photograph #2). Photograph #3 shows his much improved sitting balance postoperatively. Prior to antibiotics, new intensive care techniques, and improved surgery, we were unable to straighten the backs of such children and most became bedridden. The few with progressive twisting and bending of the spine (scoliosis) spent years in braces and plaster casts in addition to long hospitalization. The average cost of the treatment of scoliosis in the 1970's expressed in 1980 dollars is $35,000. In addition, these children used to spend an average of 18 months in a full body cast. In the 1980's the cost is only $10,000 and no time in a cast!

Unfortunately, this muscle disorder limits R.'s ability to talk. There are several companies that manufacture computers to allow R. either to display sentences or activate a voice machine. These computers are activated by hand, or if the child is too impaired, by a wand or light being attached to the head. These devices are currently not covered by Crippled Children's Services funds or Medicaid. These costs range from $2,500 to $4,800 and the child needs special training or education. We, a nation that talks to men walking on the moon, can devise communication methods for our handicapped children but will not allocate the funds necessary to purchase the equipment nor provide for their training. Needless to say, Children's Orthopedic Hospital and Medical Center's Rehabilitation Director, Dr. Gary Okamoto, is frustrated in his attempts to provide a better life for these children! How can children learn if they can neither sit nor talk?

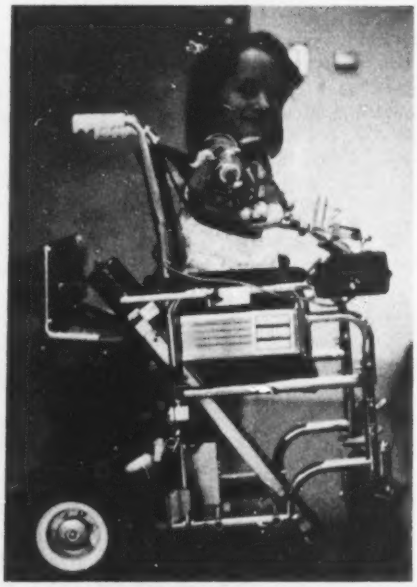
CASE 2

Photograph #4

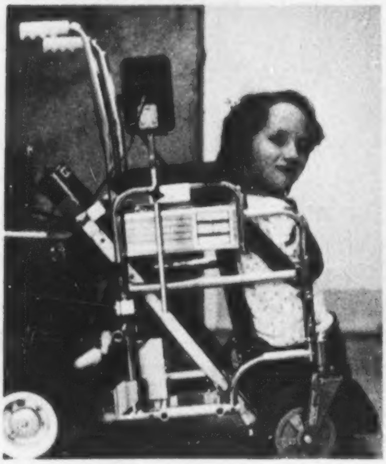
Case 2

After sitting and talking, mobility is of the next greatest importance to becoming economically independent. The two patients shown illustrate children born without arms or legs but with normal brains and bodies. J. (Photograph #4), has learned to enjoy life. She swims, bowls; she attends high school amongst normal peers and works part-time as a receptionist-secretary. She did so with primitive mobility devices and expensive sets of arms and legs costing approximately $3,500 per set. These four extremities had to be replaced approximately every year during her younger childhood. She was unable to purchase through federally sponsored programs appropriate mobility devices, and they were donated by private agencies. During her youth, Seattle's largest single industry, the Boeing Company, built a four-wheeled vehicle to explore the moon, the moon buggy. But one high ranking official previously in research and development, personally informed me that it was not profitable for Boeing to market such mobility devices for children!

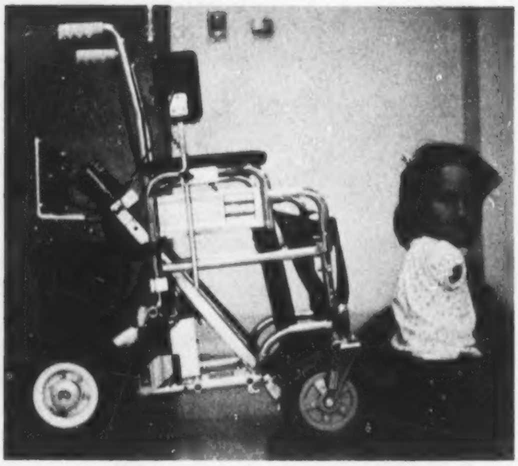
Our government paid millions of our dollars for a one time use of the "moon buggy" but our government denies purchase of the type of chair illustrated for R., the child without extremities in Photographs 5-7. This chair, designed especially for children, allows the child independent access to and from the floor by simply pressing an activator switch. The cost of such a chair is $3,500 compared to $2,500 for a chair designed for an adult that does not allow access to the floor.



Photograph #5

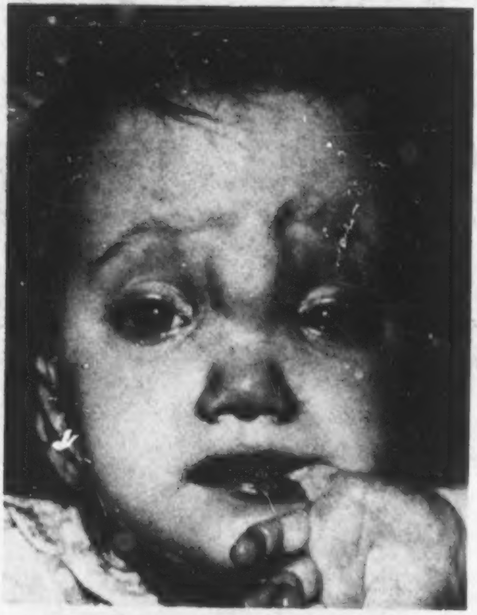


Photograph #6



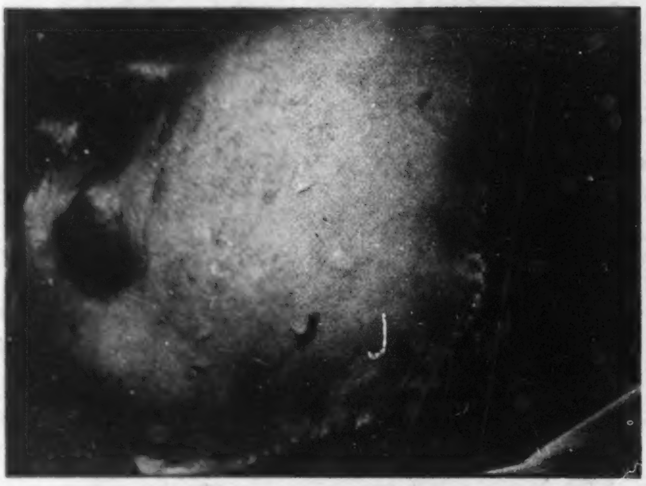
Photograph #7

CASE 3



Photograph #8

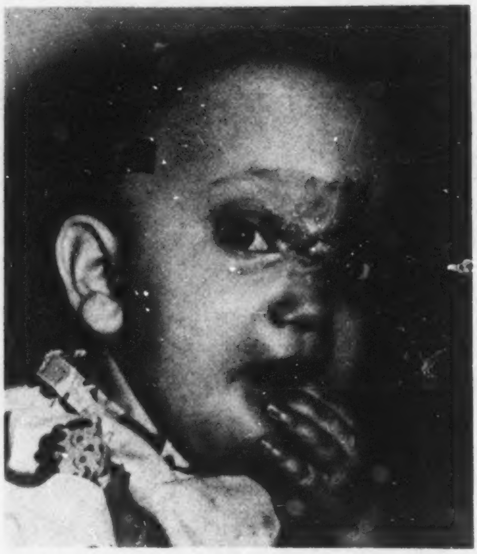
Photograph #9



Photograph #10

Case 3

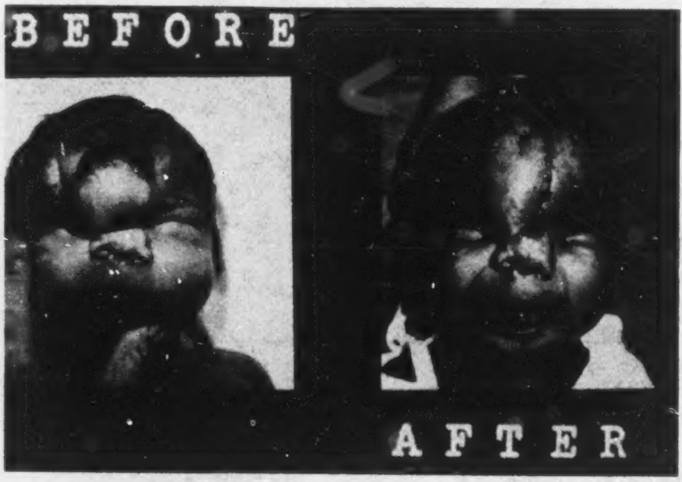
Prevention of infectious diseases such as polio and childhood viruses has become a reality with immunization for all. But there are other types of brain and nervous system disorders. Some children, particularly decendents of the west coast Native Americans, and the Irish, Scotch and Welsh, are born with openings or protrusions of their nervous system. Modern techniques for repairing the skull and face are illustrated by A. Clear fluid draining down her face is a mixture of tears and brain fluid leaking from the bulge between her eyes-a protrusion of her brain called an encephalocele (Photograph #8). Unfortunately she also was in heart failure due to a defect in her heart. She lives in Haines, Alaska, a one hour bush plane flight from Juneau. The case for the heart failure was a large blood vessel connecting the aorta (from the left side of the heart to the main body ordinarily without a connection) to the main pulmonary artery (the artery from the right side of the heart to the lungs returning directly to the right side of the heart). The high pressure left side of the heart pumps blood into the lungs via the abnormal vessel causing recirculation of blood from the left side of the heart to the lungs and back to the left side of the heart. Correction is relatively simple by ligating the large interconnecting blood vessel. To do so, ribs must be removed. During this control type of anesthesia pressures within the brain vary. In addition, infection may enter the brain at any time that the opening is draining spinal fluid with or without surgery and when brain pressure changes occur, similar to the pressure changes that take place during commercial airline flights. A. underwent surgery to ligate the interconnecting vessel, ribs were removed to gain access to the chest, the ribs were saved and a second team of a plastic and neurosurgeon (Drs. Robert Kropp and Timothy Stuntz) used these ribs to reconstruct A.'s forehead as shown in Photographs 9 and 10.



Photograph #11

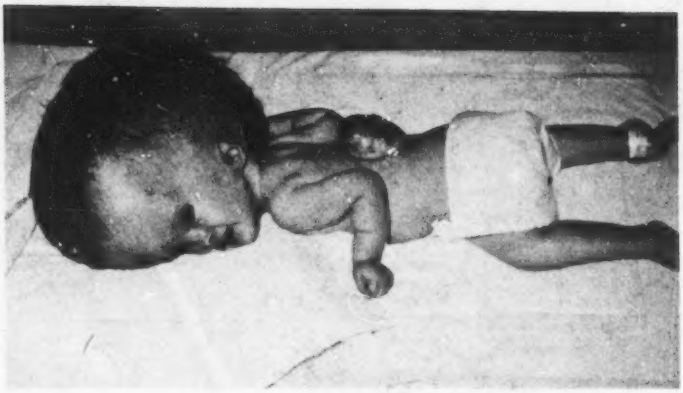
Postoperatively A. had three difficult days in our intensive care unit but by one week was able to smile. In six months she was fully recovered and had been seen in one of our community followup clinics in Alaska. She has been followed in those clinics subsequently.

I could illustrate a number of similar cases, particularly of our Native Americans such as in Photograph #12. Unfortunately these craniofacial repairs are not paid for by the Washington State Crippled Children's Services funds. They are too expensive! For example, A.'s bill was $12,063. These two children are now healthy with normal intellects and normal life expectencies. Should we allow our deformed children to live a dependent, untreated life?



Photograph #12

CASE 4



Photograph #13

Case 4

Finally, I would like to illustrate one of the major achievements of our program, shunting brain fluid (excess cerebrospinal fluid) from the brain cavities into the blood stream via either the heart or the intestinal cavity. The slow accumulation of brain fluid does not always cause death. Approximately 10% of children born with excess fluid on the brain (Photograph #13 -- hydrocephalus), with or without an open spine live for at least 10 years (Figure 1).

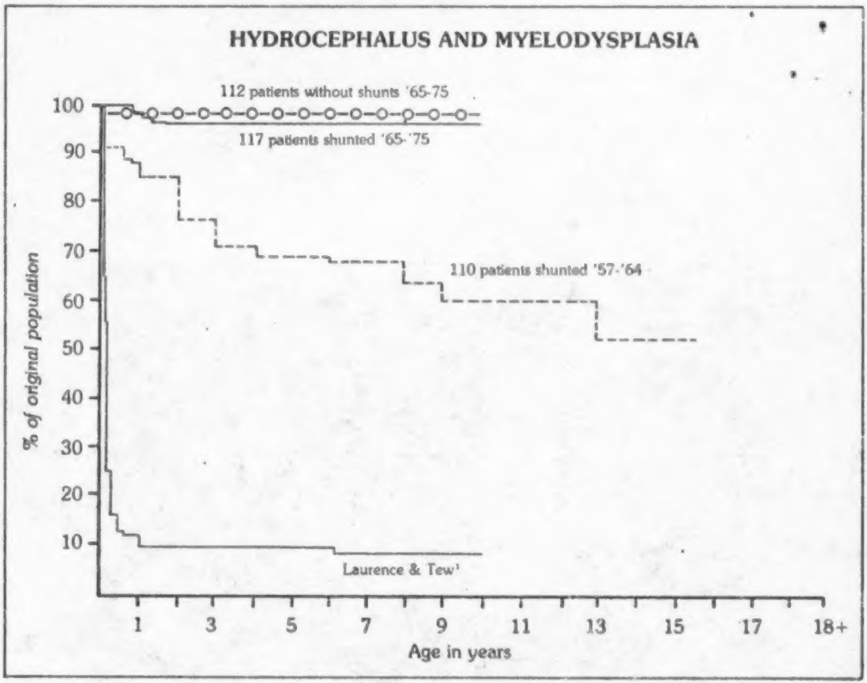


Figure 1

Survival of surgically and medically treated patients born with hydrocephalus and myelodysplasia.[2,27,28]

----- Patients treated prior to 1964 with ventriculoatrial shunts without reservoirs. Unselected except for presence of active hydrocephalus.

—— 117 patients selected for high quality survival and either ventriculoatrial shunts or ventriculoperitoneal cerebrospinal fluid shunts with reservoirs, treatment of infections by interventricular antibiotics, and when necessary total shunt replacement.[20,21]

We have documented that untreated children with open spine and hydrocephalus on the average costs the state more because the burden of their care is frequently too great for the family and the children are deserted. These children usually are either placed in foster/nursing homes or are kept in hospital/institutions with high costs to the state for custodial care and special education (Table I). In contrast, so-called expensive early medical care provides a much higher survival rate (Figure 1) of approximately 90% and a much higher bonding rate by natural parents. Bonding, is a term used to describe a mother's acceptance of her baby. Children living with their natural parents use the family's medical coverage. A child in foster care is provided with state-sponsored medical coverage. Bonding is illustrated in the picture of the baby treated for hydrocephalus and open spine in the arms of her mother in our intensive care unit (Photograph #14). In addition, only a small percent of bonded and treated children require custodial care and special education so that these life-time costs are less to the state.

Photograph #14

Table 1

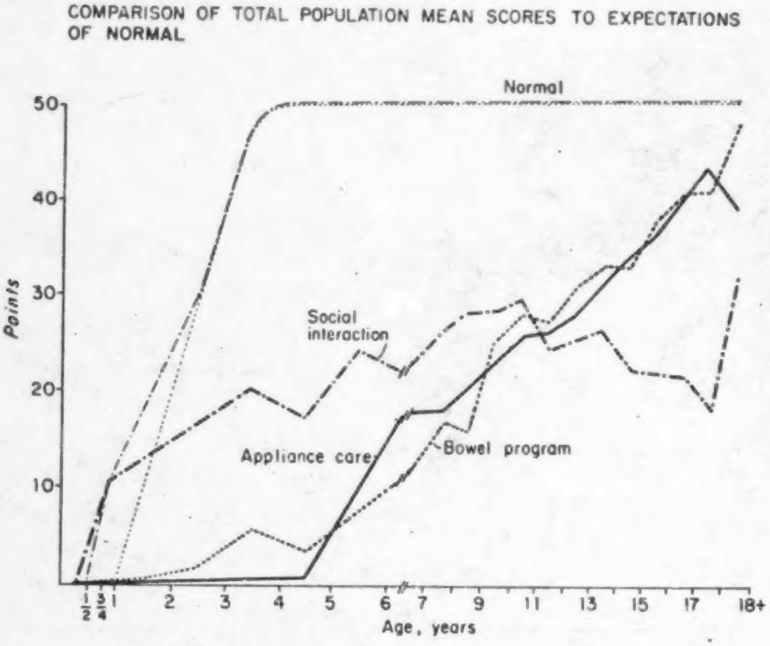
MOTHERING—CUSTODIAL CARE

	Adopted	Patients abandoned (foster and institution)		Estimated costs		
				Years of care		
		Number	Percent	Inst.	Foster	1977[b]
No treatment first 10 years	0	16	50	116	34	$1,060,600 (33,144)
Delayed treatment	2 (4%)	20	42	62	49	$ 629,900 (13,123)
Early Rx						
A	1 (2%)	5	11	5	17	$ 78,200 (1,664)
B[a]	1 (3%)	2	6	0	5 +(20)	$ 52,500 (1,419)

[a] Ten-year total, follow up only, costs for 2 in foster home care have 20 years additional added to provide costs comparable to other groups. Note costs are less since the nursing-foster home care being used for treated and institution care is being provided more frequently for untreated patients. Early Rx_A were treated prior to 1966 and B after 1965.

[b] Values in parentheses are average costs per case.

A significant contribution to the well being of handicapped children has been an opportunity to learn independent skills of daily living (Figure 2). These skills, if not learned appropriately, interfere with social adjustment. For example, Figure 2 illustrates that a delay in learning independent self toileting skills is associated with a decreased percentage of teenage children participating in normal, age appropriate, social activities.



COMPARISON OF TOTAL POPULATION MEAN SCORES TO EXPECTATIONS OF NORMAL

Figure 2

Photograph #15

Use of artificial parts such as cerebrospinal fluid shunts, modern orthopedic techniques (as illustrated in Case 1) and appropriate special education orient our children toward a normal social adjustment as shown by the child above, who was born with open spine and hydrocephalus. This young lady stands in her playroom kitchen, taking care of her doll. Her short haircut is somewhat like mine since she has recently had a shunt operation to correct blockage of her spinal fluid drainage tube. She is, as the crutches suggest, paralyzed below the knees. You will note, however, that she does not have visible braces because she is "dressed up to come see the doctor". Finally, Figure 3 illustrates how we have taken activities of daily living for "normal children" and attempted to have our handicapped children achieve through alternative methods the same growth and development potential.

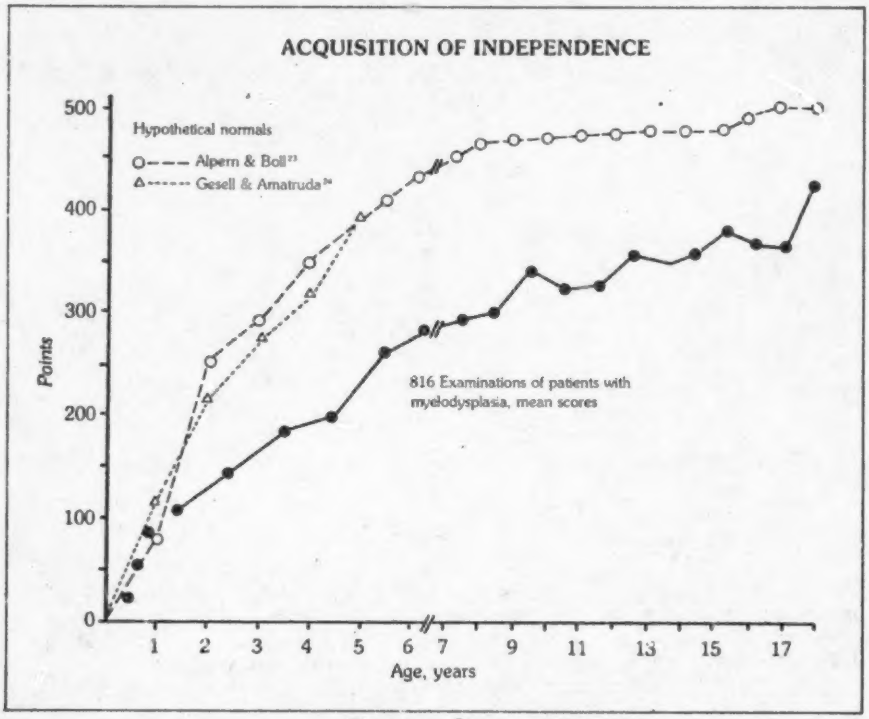


Figure 3

Independence achievement by total mean scores and age. All patients have an IQ of > 79. Late development of independence includes preparation and purchase of meals and driving an automobile. It is not necessary to marry in order to achieve a 100 percent score. The theoretical curve is for expected achievement for age by the nonhandicapped.[24,23]

I would like to stress for this committee that private health dollars have allowed these improved, non-government funded services and studies of the treatment results. These voluntary agencies have been primarily the March of Dimes-Birth Defects Foundation, Variety Club Tent 46 of the Pacific Northwest and the free and part-pay program of the Children's Orthopedic Hospital and Medical Center.

III.) FINANCIAL IMPACT OF INFLATION, RECESSION AND RESTRICTION OF GOVERNMENT SOCIAL SERVICE FUNDS

This final section documents trends in funding of our handicapped children's programs. Inflation has effectively reduced our Special Treatment Center basic operating funds by 17% in the 1981-82 academic year. This 17% reduction cost us two professional staff positions. Poor return on pledges to our regionally transmitted telethon most likely due to our depressed economy secondary to the depressed building industry and the general U.S. recession, will restrict our income from one of our largest donors by 45% this year.

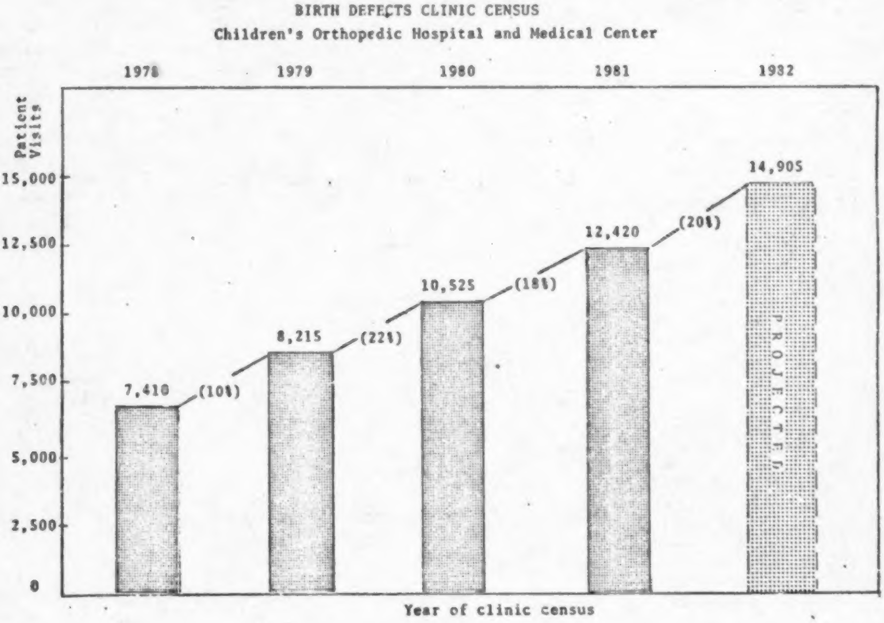


Figure 4

Figure 4 clearly illustrates an increase in patient referrals to our program of approximately 20% per year. This increase is in excess of the growth in our Pacific Northwest population according to preliminary 1980 census data. The increase in referral data do not reflect the increasing proportion of cases with families no longer able to pay for

TOTAL COSTS FOR THE BIRTH DEFECTS CLINIC PROGRAM

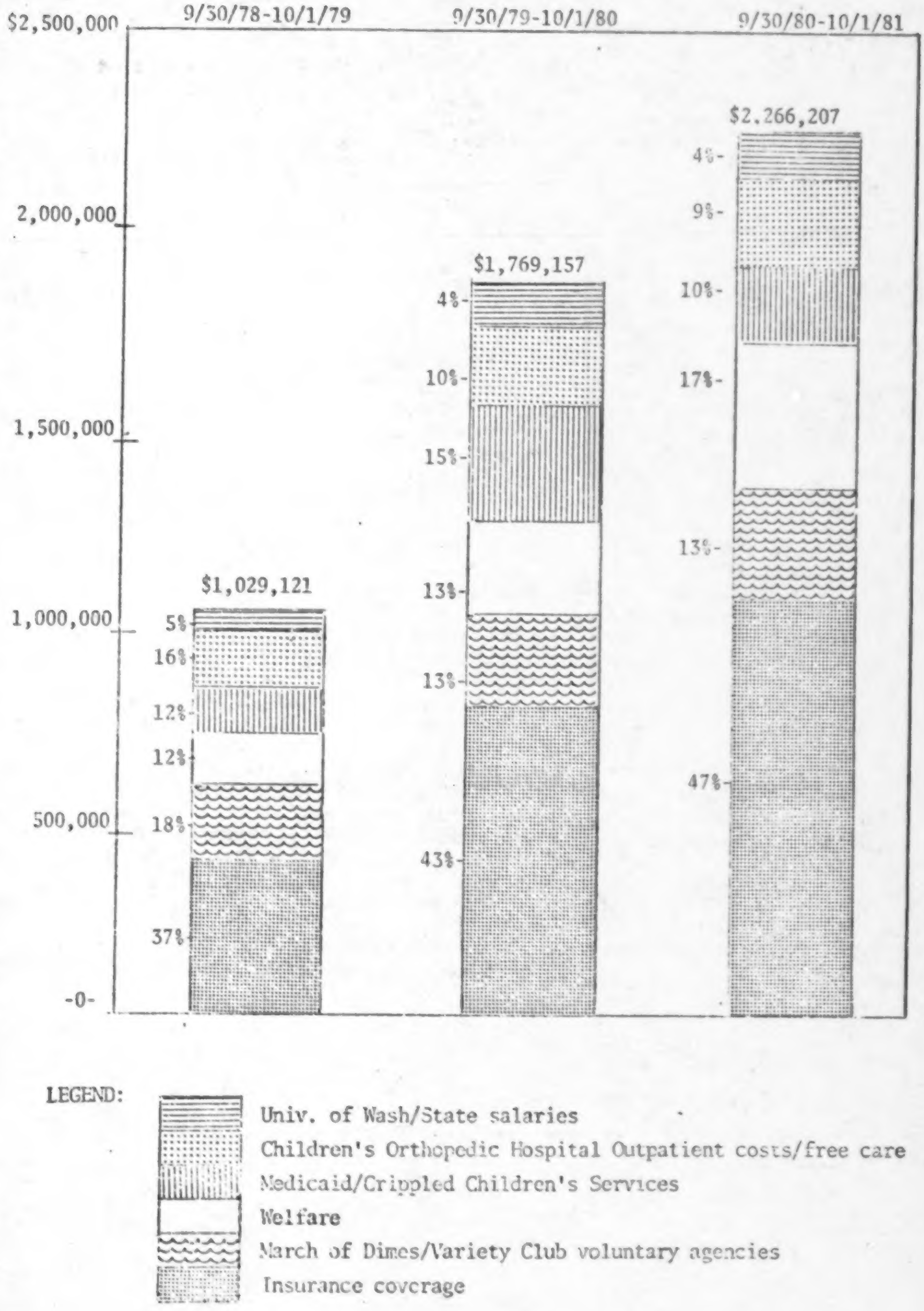


Figure 5

their child's care due to loss of employment and associated health insurance. In addition, inflation and restricted numbers of federal dollars are causing a reduction in the eligibility for Crippled Children's Services and Medicaid funds.

This lack of money, clearly shown in Figure 5, can be described as a gapping hole in the safety net, a hole that is a direct violation of President Reagan's promise to lower administrative costs but not to deprive the truly needy of services. This past week, Dr. Peter Pulrang, Head of the Maternal and Child Health Section of the Washington State Health Department, informed me of a message from Dr. Jerry LaVeck of Region X. There will be a reduction of 47% in federal money available for special projects of regional and national significance (Title V funds). Three grants to our state, like our own voluntary agency grants, provide patient services for handicapped children. In addition, these grants will not be open for competition, as in the past, which is in apparent conflict with congressional intent.

Despite a heroic effort by our own state, we are witnessing such an increase in the number of referred patients without funds or third party sponsors that we have utilized all of our own voluntary health agency dollars for patient care reimbursement for the year 1981-82. Currently the fiscal records for my program project a deficit for 1982, the first time in the history of this Pacific Northwest Special Treatment Center. Next year I anticipate a cut of $88,000 to my basic administrative grant. Unless there is a source of funds, not yet defined, I will have to reduce professional faculty members by two. This loss of grant funds will result in fewer dollars for reimbursement of contractural services for medical, surgical and rehabilitation care. It will greatly impair our ability to provide consultation and medical care to patients in schools and other rehabilitation groups currently seen via the network of community clinics as described in my opening paragraphs.

My inquiries to date from private industry and philanthropies have indicated either no available funds or an interest in other priorities.

I am now faced with an agonizing ethical dilemma: to which of my patients must I deny services? Sharing this with you today will give you a sense of the tragedies I foresee in the immediate future for handicapped children. The tax payers are currently financing and creating the ability to talk and ride in the heavens, but at the same time I am forced to decide which of my own patients will be deprived of the opportunity to sit, walk and talk on earth.

If I can be of any further assistance to this committee by providing further details to document these opinions, my time and efforts are at your service.

David B. Shurtleff, M.D.

February 17, 1982

Honorable Charles B. Rangel
Chairman, Subcommittee on Oversight
c/o Committee on Ways and Means
U.S. House of Representatives
Washington D.C. 20515

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Ways and Means
Subcommittee on Oversight

Dear Chairman Rangel:

Thank you for both the opportunity to testify before the Ways and Means Committee of the U.S. House of Representatives on the 19th of January and for the correspondence I have received from the committee since that date. I am now responding both to your suggestion during the Field Hearings that we submit written recommendations because of time constraints and your recent letter to James H. Sammons, M.D., of the American Medical Association indicating the 19th of February as the last date for entering testimony. I have been carefully seeking national support for the enclosed recommendations but must now submit these thoughts to you without receiving prior national society approval. By copy of this letter and appropriate enclosures, I will request support of several national organizations and societies interested in the health and welfare of children handicapped. At this time I can speak only as a private citizen and request that your committee receive the opinion of these groups about the general principles involved.

My formal testimony of the 19th of January was intended to answer a question: "Can voluntary agencies provide adequately for the health and welfare of handicapped children?" My answer was intended to document that they cannot at present and will be able to do so less effectively if government support is further reduced.

At your invitation, therefore, I would like to make two recommendations not included in my prepared statement. They pertain to legislation I believe should be passed by Congress as part of the modernization of our present health and welfare system by eliminating prejudicial, unequal treatment by disease category. I would like them to be included in the record of my testimony.

1.) Preventive health care should be assured to all pregnant women and children in order to reduce the incidence of costly handicapping conditions. This measure should discourage juvenile, out of wedlock pregnancies and foster responsible parenting. The tactics to achieve this strategy were adequately addressed in the testimony of Mr. William Hobson on the 19th of January.

2.) All children should receive the same quality of medical, surgical and preventive health care regardless of the ability of their parents or guardians to purchase that care. Such a strategy can be achieved by the following three tactics:

    a.) Require all health insurance plans to meet standards that provide for a basic level minimum of child health supervision and prohibit exclusion of catastrophic illnesses, accidents and disorders arising from gestations or the perinatal period (See model Washington State Laws:, Coverage of Dependent Children to Include Newborns with Congenital Anomalies. RCW 48.20.430 and 48.21.155; and Health Measures, Immunization Program, RCW 28A 31.100-122.

b.) The policies to determine a child's eligibility for government support should be based on recommendations by a committee of distinguished laymen expert about children and a panel of child health specialists (See Bailey, S.K. (1964) Ethics and the Public Service, Public Administration Review, 24:4, December, pp. 234-243. Note: a method of peer review used by the National Institutes of Health and many private health agencies and philanthropic organizations such as the March of Dimes-Birth Defects Foundation).

c.) Finally, the child's right to modern, expert medical, surgical and preventive health care be established as a right equal to their right to education as best expressed in the Education for All Law, Public Law 94-142 and the Developmental Disabilities Rehabilitation Act, Public Law 94-103.

These recommendations are based on the details of my prior written testimony of the 19th of January, 1982 in support of three general principles.

1.) One of these United State's highest priorities should be to provide the conditions necessary for the optimum growth and development of all children, of every race and creed, including immigrants or native born, urban or rural, wealthy or poor.

2.) Today's children will drive the machines of tomorrow in industry, government, commerce, in war or peace. They are, therefore, one of our most valuable national assets. Without them, we, tomorrow's elderly, will have insufficient support.

3.) By appropriate monitoring now possible by computer, a comprehensive care program can be proven to be cost effective.

If I can be of any assistance in furthering the work of your committee, I am available and willing.

Appreciatively yours,

David B. Shurtleff, M.D.
Professor and Head
Division of Congenital Defects

DBS:dm

Mr. **Rangel**. Ms. Malarkey.

STATEMENT OF MARY B. MALARKEY, VICE CHAIR, REVIEW AND ADVISORY COMMITTEE, PROJECT TRANSITION

Ms. **Malarkey**. I am Mary Malarkey, and I am corporate contributions manager for SAFECO Insurance Co. here in town.

The public and private sector have been involved in an effort that I have been asked to describe to you.

Project Transition is a partnership between the corporate, voluntary, and governmental sectors. It is an attempt to mitigate some of the consequences of Government reductions in selected program areas. We recognized it was not realistically possible to replace all the losses that have occurred and in some areas it is not appropriate for voluntary funds to replace Government dollars; however, we believed we could provide some assistance by assisting some citizens in King County who would be most adversely affected.

The program was originally developed in the spring of 1981, following the announcement of the reductions. It involved the solicitation of 180 corporate groups, foundations and trusts in King County. The solicitation was carried out by the United Way of King County as an adjunct to its regular fall campaign. The Project Transition campaign raised $1.4 million to address the special needs generated by the reductions taking place at the Federal, State, county and city levels.

Private sector allocations staffs from corporations, foundations, United Way, the Jewish Federation and the Council of Churches joined with representatives from the city, county and State to review the known reductions that had taken place through September. Forty-five program areas were reviewed.

The cuts we looked at totaled $9.8 million for King County, not including welfare grant reductions. This has subsequently increased, by virtue of additional reductions by the State of Washington made late this fall. We examined these reductions and selected the following areas where we felt our funds could be used most effectively: Emergency food; emergency shelters; chore services for the elderly who may no longer be capable of being independent without this help; day care for low-income employed parents and those in training; outpatient health and dental care for indigent clients.

The allocation decisions on the distribution of Project Transition funds will be completed by the end of this month.

The significant dimensions of Project Transition are:

One, the joint effort of the private and public sector.

Two, the focus is on the purchase of services for needy clients in selected program areas. It is not replacing funds lost in agency budgets.

Three, Project Transition does not pretend to have resolved the problem of Government funding reductions. We think we have taken an important step in trying to reduce the impact of the transition for some people.

One question that often comes up in regard to Project Transition is, "What are you going to do next year?" Frankly, we do not know; part of that answer lies in how well the project functions.

The existence of Project Transition is directly related to Government reductions at the Federal, State, and local level. One year ago, no one was predicting the cuts that have taken place. Few have any clear view on what the Federal or State governments will do in 1982, and our future depends upon what will be occurring at those levels.

["Project Transition," submitted by Ms. Malarkey, follows:]

PROJECT TRANSITION COMMITTEE

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Chairman, Project Transition Committee

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11/16/81

PROJECT TRANSITION

Background

Many citizens of King County will be adversely affected by recently established and proposed reductions in government funding. The most notable change will be the overall reduction of support to social welfare programs on the part of the federal and state governments.

The magnitude of these funding reductions and the impacts they will have on social and health service programs cannot yet be measured. However, we do know that these governmental funding reductions will be substantial in King County. We also know that the funding reductions will be beyond the ability of the voluntary charitable sector to respond. We are equally certain that it would be inappropriate for the voluntary sector to replace governmental funding in all of these program areas.

Introduction

Project Transition will raise and distribute funds to assist temporarily a limited number of individuals severely affected by abrupt changes in governmental funding policy. The focus of the project will be to address the impact of governmental funding reductions by responding to vital client needs through a purchase-of-service system with existing voluntary agencies. The project will serve immediate client needs while documenting the adverse impact of changes in funding policy in order to recommend improvements to the social service delivery system.

Project Transition will focus on assistance in those program areas deemed to be a high priority in responding to basic client needs. Delivery of service will be through the existing voluntary agency system by providing direct purchase of service funding for high priority needs of the citizens of King County. The project funding will be available to nonprofit social and health service agencies serving King County, irrespective of United Way membership. However, it should be noted that Project Transition will not seek to replace positions in agencies except where those positions are a direct requirement to the provision of services to clients most in need.

Corporations and foundations in this community will be inundated by requests from voluntary agencies, both United Way and non-United Way, to meet particular needs which each agency perceives as most urgent. As a result of this activity and without Project Transition, money could be wasted on low priority services, duplication of effort may occur as agencies frequently apply to several funders for the same program, and most importantly, funding could be directed more heavily toward the preservation of lost agency positions as opposed to meeting client needs.

By way of illustration, several agencies provide chore services to elderly citizens in King County. In instances where the hours of chore service have been reduced as a result of cutbacks in governmental funding, the option may no longer be open to some of those elderly citizens to remain in their own homes. By funding minimal additional hours of chore services, it may be possible to keep these citizens from being institutionalized. The benefit would be to allow those citizens to remain in their own homes and outside the institutional care.

The Project Transition partners are close to the service delivery of the agencies, therefore, they will have knowledge of the impact on clients resulting from program reductions due to the government funding cutbacks. The partners' role will be crucial to the success of the project, as they will identify potential programs to be addressed.

Process

The first requirement will be to identify critical program areas affected by reduced government funding that directly affect the citizens of King County. Due to limited funding capability, those programs will be selected for assistance that will have a severe impact on clients and are within the funding capability of the project. The project partners will help identify those program areas and make their recommendations to the Review and Advisory Committee. The Project Transition Committee will then determine priorities.

Once priority program areas have been identified, the Review and Advisory Committee will use the resources of the Community Information Line to identify agencies providing services in those areas. Those agencies will then be asked to submit proposals for funding programs addressing specific client needs.

The Review and Advisory Committee will receive the project proposals and will make recommendations to the Project Transition Committee, which will then make the final allocation decisions. The Review and Advisory Committee will establish procedures to monitor the Purchase of Service Grants provided for by the program.

Summary

Project Transition's goal is to ensure the continued provision of vital social and health care to the citizens of our community. To do this we must draw on the combined planning and allocating resources of the project partners, both government and private sector, working in cooperation to identify critical areas of need. By involving the area's foundations, trusts and corporate grant-making bodies, we can draw on their knowledge of the community and, hopefully, alleviate duplication of program funding while addressing vital social and health service issues.

How will Project Transition operate?

Project Transition involves a Review and Advisory Committee made up of representatives of the State Department of Social and Health Services, King County, The City of Seattle, United Way, The Church Council, The Jewish Federation, corporate contribution officers, and representatives of foundations and trusts. Members of the Review and Advisory Committee will study information regarding reductions in funding to social and health service areas. The Project Transition Committee will then establish priorities and will allocate funds to agencies for critical human needs.

Project Transition is unique in two respects. In the first instance, it is a major effort on the part of the corporate community, foundations, the voluntary sector and local government to work together towards addressing vital social and health service needs of the citizens of King County. Secondly, the Project Transition Committee will identify those programs most in need of Project Transition funding. Agencies providing those services, irrespective of United Way membership, will be contacted. Project Transition will then allocate funds to agencies to support vital services to individuals.

How will Project Transition dollars be used?

The total magnitude of the funding reductions and the impact they will have on King County social and health service programs cannot yet be measured. With some reductions in effect and others pending, the state, county and city governments are preparing their social and health service budgets for the coming year. Project Transition evaluated more than forty-five programs for possible funding. The following pages provide a summary of the initial program and service areas selected by the Project Transition Committee.

Project Transition is local citizens making decisions regarding funding of vital local programs.

For additional information regarding Project Transition please contact:

Peter Mourer, Staff Director
United Way of King County
107 Cherry St.
Seattle, WA 98104 (206) 447-3759

PROJECT TRANSITION FUNDING

Emergency Service Support

Project Transition will provide emergency service support within the food and shelter area.

There are several federal and state direct financial assistance programs that have been reduced or terminated. These general assistance program reductions will directly affect the low income and indigent population of King County including women and children and will create additional demands for emergency services.

Project Transition will support the emergency food program by providing support to the donated and wholesale food providers. These organizations are able to mobilize large quantities of food for every contributed dollar. This food is then distributed to the 37 community food banks and emergency meal programs.

Project Transition will support the emergency shelter and low cost housing programs by contracting with these service providers to allow for maximum utilization of existing facilities. Emergency shelter includes resources for women and children.

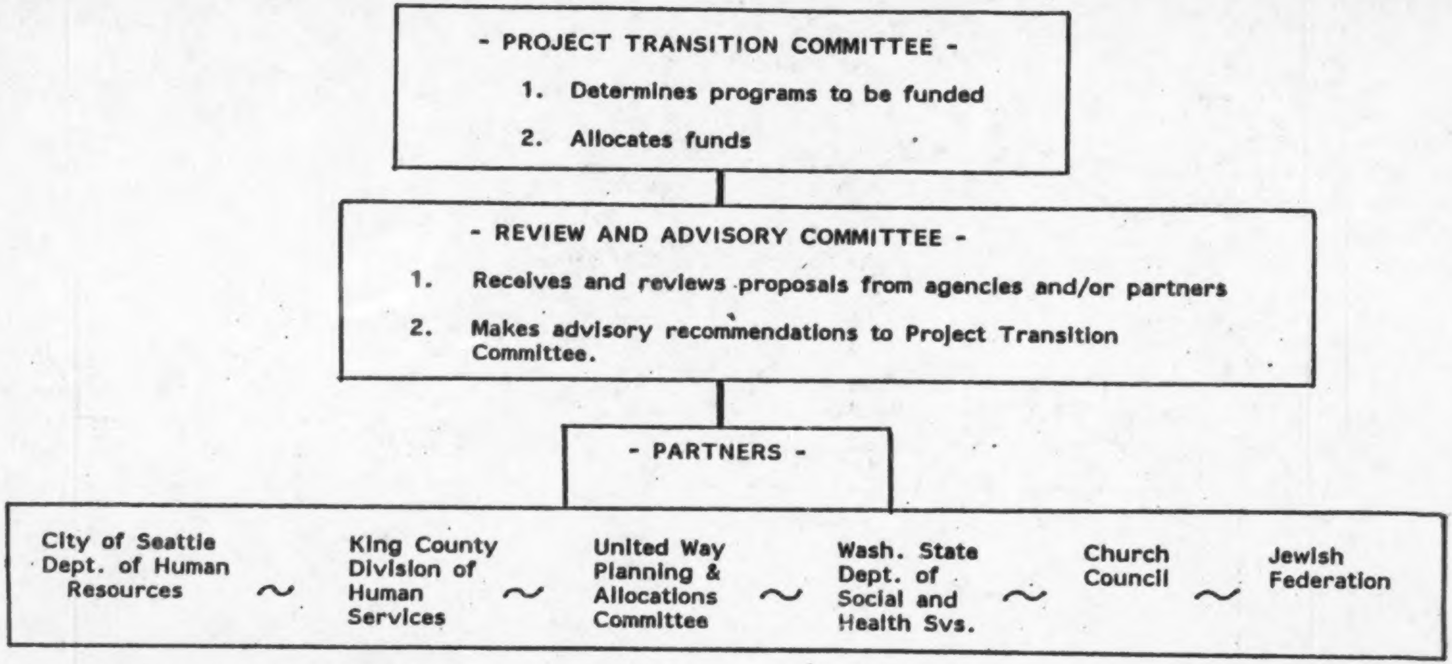
Chore Services

Project Transition will provide chore services for clients placed in extreme situations where they may no longer be able to maintain an independent existance; providing the provision of volunteer chore service is not feasible.

Chore services are provided to needy elderly individuals who are unable to perform basic tasks of daily living. Provision of these services enables a person to remain at home rather than enter a nursing home or institution at a considerably higher cost. Typical chore services may include food shopping, meal preparation, feeding assistance, bathing and dressing.

Reductions in state support of the chore service program have affected 3,000 clients in King County. In some cases, clients are being placed in an extreme situation where volunteer programs cannot meet their needs and the clients cannot afford the cost of additional paid chore hours to maintain their independent living. In these cases, Project Transition will help provide the additional hours of required chore service.

Project Transition funding will also support an increased development of volunteer chore programs as a cost effective approach.



- PROJECT TRANSITION COMMITTEE -

1. Determines programs to be funded
2. Allocates funds

- REVIEW AND ADVISORY COMMITTEE -

1. Receives and reviews proposals from agencies and/or partners
2. Makes advisory recommendations to Project Transition Committee.

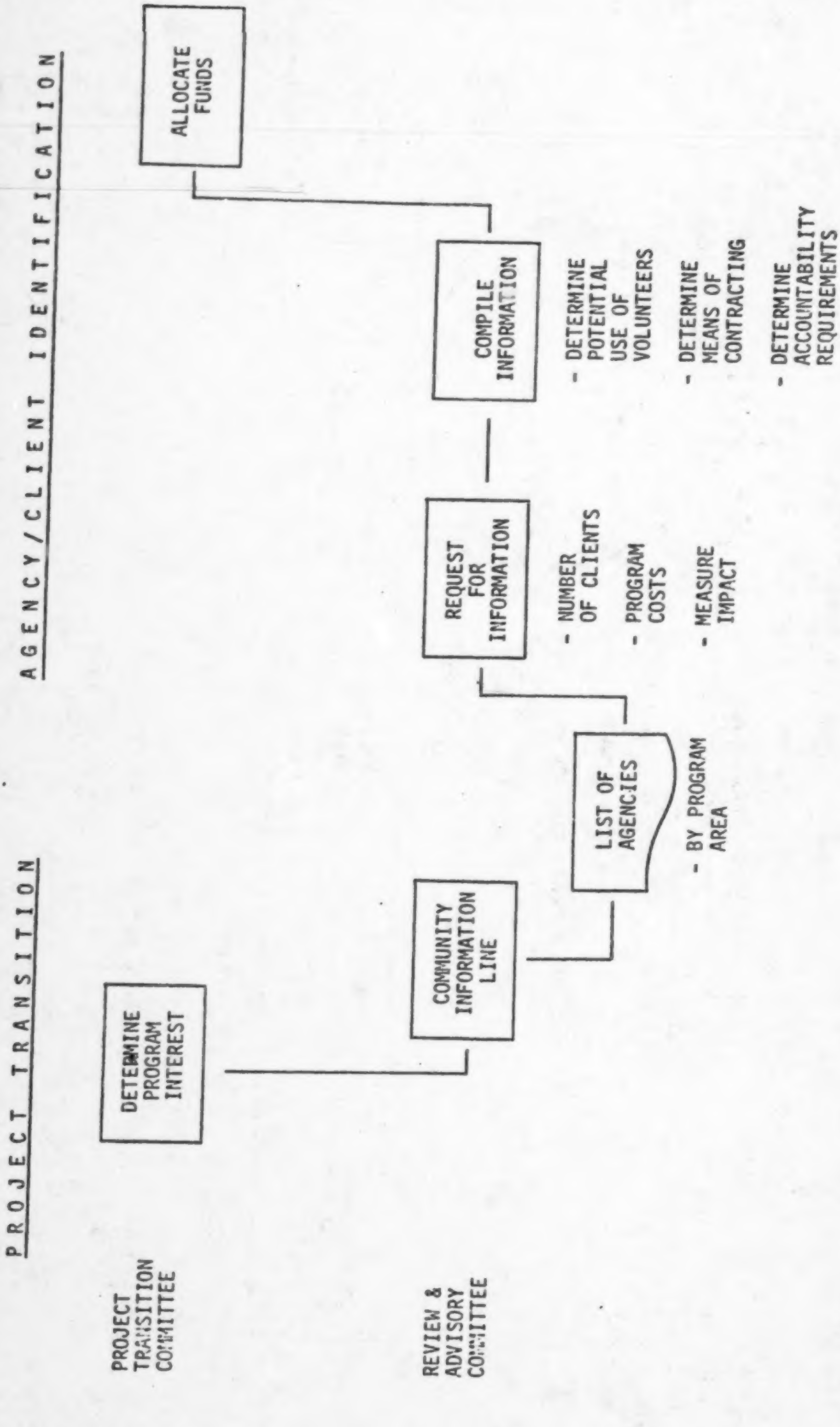
- PARTNERS -

City of Seattle Dept. of Human Resources ~ King County Division of Human Services ~ United Way Planning & Allocations Committee ~ Wash. State Dept. of Social and Health Svs. ~ Church Council ~ Jewish Federation

PROJECT TRANSITION PARTNERS

Criteria: Planning and allocating bodies

Role: Identify potential programs to be addressed.


PROJECT TRANSITION
AGENCY/CLIENT IDENTIFICATION
PROJECT TRANSITION COMMITTEE
REVIEW & ADVISORY COMMITTEE
DETERMINE PROGRAM INTEREST
COMMUNITY INFORMATION LINE
LIST OF AGENCIES
- BY PROGRAM AREA
REQUEST FOR INFORMATION
- NUMBER OF CLIENTS
- PROGRAM COSTS
- MEASURE IMPACT
COMPILE INFORMATION
- DETERMINE POTENTIAL USE OF VOLUNTEERS
- DETERMINE MEANS OF CONTRACTING
- DETERMINE ACCOUNTABILITY REQUIREMENTS
ALLOCATE FUNDS

Mr. RANGEL. Thank you very much.

Ms. Ronni Gilboa.

Ms. GILBOA. We had to get food in there somehow.

STATEMENT OF RONNI GILBOA, EXECUTIVE DIRECTOR OF FOOD OVERSIGHT-OPERATION DISTRIBUTION

Ms. GILBOA. My name is Ronni Gilboa. I am the executive director of Food Oversight-Operation Distribution, referred to as FOOD, a nonprofit organization, and a member of the National Food Salvage Network.

FOOD procures, warehouses and redistributes large-scale contributions of food to food banks and feeding programs. It is a unique program in this State because of its capability of handling large quantities of food.

We can do this because we have: (1) Large warehouse space; (2) necessary equipment, such as a forklift and a truck; (3) two 40-foot refrigerated container units; (4) transportation capability through services donated by various transportation companies, Safeway, Boeing and others, and (5) a network of food suppliers established throughout the State and other parts of the country. FOOD is the only certified National Food Salvage Network member in Washington State.

Our organization, located at the Fircrest School complex in Seattle, operates almost entirely on the basis of donations. For example, all food and transportation are donated by a variety of companies. Office space, utilities, furniture and warehouse are donated by the department of social and health services, cartons are contributed by the Weyerhaeuser Co., two refrigerator container units have been donated by SeaLand Services, a forklift by the C. B. Equipment Co., and a 14-ton truck with a hydraulic lift by Pacific Northwest Bell. In addition, donated legal and accountant services are provided to FOOD.

FOOD represents an outstanding example of the cooperative efforts of the public and private sectors working together to deal with one of the most basic concerns of human beings—hunger. In 1979, the Community Services Administration estimated the poverty population of King County as 75,000 persons. Since then, food bank and meal program utilization by the poor has increased 250 percent. Our statistics indicate that over 67,000 people in King County use the food banks and meal programs each month. And this figure is increasing due to several impacts of unemployment, decreasing assistance from Federal, State, and local governments and increased costs of food, shelter, and energy. Current data show that the most vulnerable—children, elderly, disabled, and women—represent 90 percent of all food bank clients. Long-term hunger has disastrous effects on health, mental ability, attitude, and employability, as documented by countless studies.

All food obtained by FOOD is distributed to nonprofit food banks and feeding programs and represents a significant supplement to what they buy or can obtain by gleaning. In calendar year 1981, our total food distributed exceeded 2.5 million pounds with a retail value of approximately $1.5 million. In addition, transportation costs contributed were valued at $42,000. We are expanding our solicitation efforts to a statewide, regional and national basis and developing avenues for greater community and business involvement, continued cooperation and coordination with local government, food banks, and supporting agencies. When there is a surplus of perishable product, we extend our distribution to food banks throughout the State. FOOD has proven itself to be an efficient, accountable donation system which combines effective business practices with social concerns.

FOOD, while working with corporate donors, has identified issues of concern, which impact upon the ability of FOOD to successfully secure donated food products:

One, an increased awareness of the potential tax deduction that eligible corporations can deduct for inventory donations is needed.

Two, extension of special tax incentives and deductions to the providers of services. Specifically, under current tax laws, transportation donors are not eligible for any special incentive tax deductions. This applies not only to trucking companies but the railroads as well.

Third. A reduction in the amount of paperwork needed to document inventory donations.

Fourth. An easement in FTC regulations concerning donated transportation services. Specifically, under current FTC regulations, the provision of donated transportation, via a "back-haul" or an empty truck on a return run, is not eligible as a charitable contribution.

Fifth. An increase in the amount a corporation may deduct for charitable contributions before taxes.

I had one donor who offered me in October close to two million pounds worth of apples. He checked it out with his accountant, and he said, "You can't afford this," and the donation reduced from 2 million pounds' worth of apples down to 30,000.

I had another donor which was able to give me 40,000 pounds' worth of fish. Again, the individual checked with his accountant and because of the restraints on the deductions, that donation was declined.

In working with the USDA, FOOD requests that:

First. A reduction in the amount of paperwork concerning documentation and eligibility occur.

Second. That the existing and future commodity stores be released for distribution to the food banks and meal programs of this county.

Third. That any programs involving potential distribution of product through food banks and meal programs involve local food redistribution programs in the decisionmaking process and the National Food Salvage Network.

For the betterment of the Nation, FOOD requests that the USDA, or some other appropriate agency, assist the members of the National Food Salvage Network by:

First. Publicizing the existence and mission of the network in its publications and conferences;

Second. Working with the members of the network in identifying and securing potential donors, on a local, regional, national and international basis.

Third. Inventorying and releasing for use, available warehouse, transportation, food and refrigeration resources, under Federal jurisdiction to assist National Food Salvage Network members.

If you have any questions, I will be glad to answer. Thank you.

I have two additional points that are a constant reality with this program.

First of all, while the FOOD program has made remarkable and fantastic strides in its ability to receive and solicit food, this program as a separate entity cannot solve the need.

I could bring in 1 million pounds of food in 1 month, and I would need it the next month.

It is a continual need.

The final point is, people consider as part of the "safety net" the provision of social security and the food stamps.

When you look back upon the intent of the legislation, there is a catch word called supplemental.

The use of that word implies or assumes that people who would be receiving social security or food stamps somehow have another income or another source of food or shelter or some kind of supplement; OK. The sad reality is, those people who do receive social security and food stamps, unfortunately that is their only source of income.

Given that fact and the testimony provided by the other people, I am sure you are at this point painfully aware about the inadequacies of that supplemental support.

It is my belief that this country is in a state of institutionalized hunger, and it is your responsibility, sir, to do something about it, because I can't do it.

[An attachment to the prepared statement follows:]

[From the Seattle Times, Dec. 13, 1981]

FOOD: SURPLUS GOODS HELP ORGANIZATION FEED THE HUNGRY

(By Marjorie Jones)

The forklift was scurrying around the warehouse like a big red ant.

Vegetables were being unloaded from a big truck and set aside in large piles for repackaging in smaller containers.

At another door, a pickup truck was being piled high with food to go to Operation Emergency Center, a food-distribution outlet in Rainier Valley.

The scene was the surplus-food warehouse of Food Oversight-Operation Distribution (FOOD) at the Fircrest School.

FOOD serves as a centralized gather and distributor of donated bulk food. The food is brought to the warehouse, transferred into smaller packages and taken to area Northwest Second Harvest food banks and other emergency-feeding programs and given to those in need.

The program was a vision of State Senator Ray Moore back in 1979. Moore suggested a committee be formed to find ways of keeping food banks stocked. The committee eventually became the board of directors of Food Oversight. A $50,000 federal grant was obtained and the state provided the 3,000-square-foot warehouse at the Fircrest complex in Northeast Seattle. The program was begun in April, 1980.

At first, food donations amounted to only $5,000 to $6,000 a month. Now, a conservative figure is $66,000 a month, Ronni Gilboa, executive director, said.

Several major supermarket chains, trucking firms, food producers, a certified public accountant and many others participate.

Big trucks that may have a load from Western to Eastern Washington bring suplus food back rather than "deadhead."

One morning last week, 7 tons of potatoes, 5 tons of carrots and 9 tons of frozen corn were brought to the FOOD warehouse. Another 6 tons of pears showed up that afternoon.

Last September, the organization handled more than 277 tons of food, record, said Ms. Gilboa. This included 150 tons of apples and 26 tons of salmon products. The total wholesale value of food going through the warehous that month was almost $300,000.

There were so many donores that month that Food Oversight—through its National Food Salvage Network—sent a boxcar of apples to the hungry in Baltimore and a boxcar of apples and pears to needy people in Minneapolis.

The total poundage from last January through October was more than 1.6 million with a retail value of $677,786, Ms. Gilboa said.

In the last three months of this year, FOOD will have contributed substantially toward easing hunger pains to the 80,000 needy people who go to food banks in King County.

The operation's annual budget is $66,000. This includes the salaries of three employees. That is expected to be about 5 to 6 percent of what FOOD will bring in this year. Next year operational costs will be brought down to 2 percent, Ms. Gilboa said. The goal is an all-volunteer program.

For every dollar is administrative costs, she hopes to bring in $200 worth of food.

A seasonable assist comes from the Food Resources Network's "We Can Stop Hunger" program which has collected and distributed more than 6 tons of food since November 11.

That network picks up donated food at 157 participating retail stores. Food items contributed at North End stores, goes to FOOD for processing. Those from the South End go to the Northwest Second Harvest warehouse.

David Jimenez, coordinator of the pilot project here, has set up a similar effort in Pierce County and plans to expand the program to Spokane next.

FOOD is in the Fircrest School, 15230 15th Ave. N.E., telephone 364-03000.

Mr. RANGEL. Mr. Reichert?

STATEMENT OF MICHAEL L. REICHERT, EXECUTIVE DIRECTOR, OFFICE OF CATHOLIC CHARITIES, ARCHDIOCESE OF SEATTLE

Mr. REICHERT. My name is Michael Reichert, I am currently serving as the executive director of the office of catholic charities, which covers the western half of the State.

I guess I am angry and frustrated. I have my documents that you will all have for your committee, but that will not do it.

The private sector cannot do it. We operate housing programs, homes for the aged, homes for the medically fragile child, and multiservice centers, for people in the State located throughout western Washington. We are at the end of our wits about this.

A couple of crucial things: Assume for just a moment that the Reagan administration's attitude about human services is accurate, and that people do not want to fund human services to the level that we have in the past.

Though I don't agree with it, the way we have gone about it is absolutely brutal. Brutal to us that are trying to do the job, and to those who receive the service. It brings shame to the country and the community alike.

I am not here to make a partisan statement.

The last I heard, the Democrats were in control of the House of Representatives. What happened? There is nothing that could not have been modified or mitigated.

I struggle with that every day, with 450 staff people and a very large budget, trying to deal with the problems created by poor action on the administration side and the lack of checks and balances on the congressional side.

I am sorry if my anger shows through, but I can't restrain it at this time. This is the third testimony I have been to, and in each case I get the sense that you are listening to the bleeding hearts now. The big boys have gone away. I guess in a sense we are the bleeding hearts, and you have to share that with us.

Mr. **Rangel**. You belong to the big boys, the archdiocese.

Mr. **Reichert**. If you look at the kind of moneys we put into the effort, when you talk about the billions——

Mr. **Rangel**. I am talking about political power and the fact that there are archdiocese all over the Nation. You come from a very, very powerful institution.

Mr. **Reichert**. We are aware of that, and we are working on that institution as well.

Mr. **Rangel**. All I am saying is, if a lot of my colleagues in the Congress thought that that powerful institution was riding oversight on their votes, you wouldn't be so angry with us.

Mr. **Reichert**. Perhaps. I am angry not only at you.

Mr. **Rangel**. I understand what you are saying and what the doctor is saying. It is not for me to lecture, because I am just as frustrated as you are, but that sophisticated people knew what was happening.

For the poor people, they could hope that we knew what we were doing, but sophisticated people knew what those cuts meant and they were silent. Yet, we still hear the mumbling, "Give the President a chance."

You guys did it for 40 years, and let's see what can work.

All I am saying is, when you testify in front of these committees, you are only talking about one vote apiece.

When national policies are being made, and we have to vote on them, politically we know which side people are on. I am not prepared to tell the American Medical Association what to do or not to do, but it seems to me they are closer to what happens to human life, and they have taken certain vows, and you should not have to struggle like this alone, Doctor.

I am going to try to help you get their attention, because they certainly know how to get to our committee for reimbursement.

Mr. **Reichert**. Take a look at the inconsistencies, lets talk about private giving. I recognize the political pressure churches, Catholic and others, can exercise, but we are talking about inconsistencies in our tax structures.

You probably heard this across the country, "you cannot create private incentives to dump money into savings accounts and still expect increased donations to social services." Another example take—for instance, the Tax Reform Act of 1978 dealt with steps that greatly reduced private gifts to foundations.

Mr. **Rangel**. Did you check your testimony with the church before you came here?

Mr. **Reichert**. Yes, sir. From our own perspective, all we can do is say to you, we can't expect our people to give more. They are basically middle-class persons who are looking at unemployment as a real concern in their life. They can't afford to give more.

We can't do it. They can't do it unless we all somehow come to some clearer realizations.

The IRAs, they are great for individuals. If I have a $500 excess left over at the end of the year, instead of dumping it into a service for the poor, I put it into an IRA and save for the future. Those are the kinds of contradictory approaches that we see taken here that strip churches of income-producing power, as well as, in effect, cut the government out of the work as well.

I have to say, please look at the inconsistencies of our tax laws and do what is necessary to keep the people out of the streets.

When the unemployment runs out, and we are seeing to a large chunk of that here, a large number of people in this community are coming up on the end of their unemployment benefits and the plants are still closed, we are going to be in trouble real soon folks.

[Mr. Reichert's prepared statement follows:]

STATEMENT OF MICHAEL L. REICHERT, EXECUTIVE DIRECTOR, OFFICE OF CATHOLIC CHARITIES, ARCHDIOCESE OF SEATTLE, WASH.

My name is Michael Reichert. I am here representing the concerns of the statewide Catholic Charities Network. I currently serve as executive director of the Office of Catholic Charities for the Archdiocese of Seattle. In that capacity I am responsible for oversight and management of six Catholic community service centers located in Vancouver, Olympia, Tacoma, Seattle, Everett and Bellingham.

Our Catholic community services network employs some 45[illegible] persons and has a combined annual budget in excess of four million dollars.

As part of my function as director of Catholic Charities, I serve as executive director of the Archdiocesan Housing Authority which currently is in process of constructing 180 units of housing for low income elderly and handicapped persons through the HUD 202 financing program and section 8 rent subsidy program. We also manage Indochinese resettlement programs at Catholic Charities.

I am a member of the executive board of the Church Council of Greater Seattle and serve as chairperson of the Social Justice Committee of the Washington State Catholic Conference.

My purpose here today is to underscore the devastating impact that current administration policy is having in Western Washington. One need only look at the depressed housing construction industry to see an example of the effect high interest rates are having on the stability of Washington State's economy. Unemployment stands at record postwar highs, while human service programs for victims of this deliberately orchestrated recession are being summarily and brutally dismantled by the Reagan administration.

According to experts from the school of Reaganomics, we were supposed to be exposed to slight increases in the rate of unemployment and some temporary decreases in business activity on our way to the promised land or lower inflation and a balanced Federal budget by 1984. It seems that because of those increases in unemployment, and the related loss of income tax revenue, we are now unable to balance the 1984 budget. That point becomes even more significant when you realize that not only are unemployed persons unable to pay Federal taxes, they are also less able to make private donations to churches or service organizations to help the needy. In fact they become the needy. Please keep in mind that the large majority of our donations come from working class people. When these people are out of work or concerned about "tough times ahead" they are less likely to be as generous as during times of prosperity. The administration's assumption that private giving can adequately fund human services is questionable in good times. It entirely misses the mark in times such as these.

Let's set the record straight. The nonprofit service providers, churches and secular alike, cannot even begin to meet minimum human service needs in this State, let alone replace the historical Federal and State effort. At Catholic Charities we are in the middle of numerous efforts to do what we can to help. For example, along with the Washington State Catholic Conference, we operate a volunteer chore service program for the elderly, using local churches as our base for local volunteers.

But still a large number of needy elderly who were previously part of the State's chore program are now going without service. In Bellingham we are constructing a 1¾ million dollar group care facility for psychiatrically impaired adolescents. Nearly all of the clients will be wards of the State. Yet long-term funding for maintaining such programs is uncertain.

Projected cuts in HUD construction funds for low-income, handicapped, elderly and family facilities only exacerbate an already critical housing shortage in the State. Continued Federal Assistance for construction financing and rent subsidies is essential.

I, like other panelists, will provide you with additional documentation for the record. It details the devastating impact of Reaganomics on the needy in this State. In short, this Nation's standard of living and our level of service to those in need are rapidly declining. The administration's economic course of action can only take us closer to the time when angry and violent people fill our streets. I urge you to do what is necessary to avoid that. I will close by making the following points.

This is not a partisan statement. I am as deeply troubled by the failure of the Democratically-controlled House to minimize or mitigate this affront on the hungry, the lame and the aged as I am about the administration's attitudes, policies and actions . . . and I'd like to remind each of you that increasing unemployment rates among the people of this State and Nation can only lead to increasing unemployment rates among current congresspersons and elected officials. There is a point where philosophy and political ideology come face to face with reality. And that point is when the unemployment benefit runs out and the lumber mills and fabrication plants are still closed.

In my last testimony before such a body I urged each Member to be strong and to hear the voice of a Nation in pain. I reiterate that statement today. We dare not, you dare not let that voice go unheard.

Mr. RANGEL. Mr. Anthony?

Mr. ANTHONY. We have heard the President talk about the private sector and volunteerism, and taking up the slack.

If I am hearing what you are saying loud and strong, also through the food program, and the lady here says you don't know what you will do next year, if we go back to Congress in 1982 and the President proposes additional deep cuts in these social programs for fiscal year 1983, are you telling us today that there is absolutely no way in this community that the private sector, nor volunteer charitable organizations is going to be able to take up the slack?

Mr. REICHERT. Absolutely right.

Mr. ANTHONY. Those people who were in the audience, if we follow the lead of the executive branch, we can promise them more of less.

Mr. RANGEL. Did the church respond when the President said every church ought to adopt 10 poor families?

Mr. REICHERT. In most districts, you will find 10 families would be the tip of the iceberg.

That shows to me the naivete we are talking about.

The depth of frustration and unemployment and the depth of poor people is much deeper than our leader is currently aware of.

Mr. ANTHONY. With the cuts having been made in 1981, and in place now, are you seeing your own personal staff strained more and more, and stretched to the limit?

Do you have the same problem that the Federal Government feels like it has?

We are asked to do more and we don't have the money to do it.

We run into these large deficits. You are being asked to finance the services by the same type system.

Ms. MALARKEY. I think that there are, if you can say some good things that are happening in that, I, as a manager, a philanthropy for a large corporation, do see some nonprofits managing their budgets better, cutting back, and boards of directors getting more interested, taking more responsibility, but we certainly are not going to be able to, the nonprofit sector is not going to be able to pick up what the Government has cut back.

There are some positive things happening, but nothing that is going to pick up that slack.

Mr. **Anthony**. What point is a minority stockholder going to walk in and say, "Hey, Mr. C.O., give that money to me in the form of a dividend. Don't give that money to some poor slob who can go to work. I am working. Why give the money away to somebody else that does not deserve it?"

At what point are private corporations going to run into some pressure about distribution of corporate earnings?

Ms. **Gilboa**. The food program, our operating costs are approximately 5½ percent; and when you compare that with the other traditional administrative costs for social service agencies, which run anywhere from 15 to 30 percent, we are already at barebones, and next year my goal is to double the amount of food that I bring in, but I am not going to have double staff. I am going to be awful lucky if I get the addition of one half-time person, because we can't afford it, but I am expected to do twice as much work and with the effect of the cuts, the need is twice as much.

Mr. **Reichert**. I am not here saying we are not trying, because we are, and in a desperate way.

You can take our voluntary chore service, where we have taken over, for the better part of the State, a volunteer chore service program for the elderly, our volunteers adopt local people who are elderly, but even with that—thousands of hours of volunteer time—we are going to, we are running them ragged. How long can those volunteers hold out?

You get the first flash; we go at it, but 8 months down the road, what are we going to do?

Mr. **Anthony**. They burn out, too.

Mr. **Reichert**. We have got to deal with the reality of volunteerism. It is a cyclical business. To expect any of us to carry that weight on the long haul, it is ludicrous.

Mr. **Anthony**. This is my fourth field hearing that I have attended, Mr. Chairman, and I think the witnesses that appeared here today have led the field as far as their ability to clearly demonstrate the need and frustrations and the problems that you are dealing with, and I would like to compliment the panel and those that have already been gone, because their testimony, having been weighed against testimony of other sections of the country, is very good, and I would like to compliment you on that.

Mr. **Rangel**. Mr. Lowry?

Mr. **Lowry**. Thank you, Mr. Chairman.

I know we need to move on to another site, and that is next on the schedule. I really want to thank you and the committee for spending this time and comment that when you have the opportunity to meet our archbishop, you will understand these answers.

If the rest of this country was run that way, we would be in much better shape.

Mr. **Rangel**. I am glad you said that, because that is very encouraging. It is not that you, yourself, need that type of support, but there are many, many people in Congress that are concerned with getting re-elected. When the archdiocese and rabbis and community people, those people that are concerned spiritually about the poor, say that the Congress is doing the right thing, it strengthens a lot of weak politicians.

Mr. **Reichert**. I will only reiterate that: Be strong; move ahead; do it.

Mr. **Rangel**. If I can get a little note from your bishop here, I would like to share it with my cardinal in New York. He sees more of the President than I do.

Sister **Margaret Casey**. The National Conference of Catholic Bishops did protest in front of Congress the cuts that were proposed and in effect after the conference.

Mr. **Rangel**. May I say this? Are you a sister?

Sister **Margaret Casey**. Yes.

Mr. **Rangel**. I had deep discussions with my fellow Catholics in New York, and I understand how it works.

There is a church in every district, in every district, there is a pastor.

That is one of the most effective delivery systems of the message.

Please send me some more information on the food program.

Ms. **Gilboa**. The National Network, to whom I was referring, is located in Phoenix. There are 38 food banks stretched across the country.

Mr. **Rangel**. Share that with me.

How are we going to get together, Doctor, with the American Medical Association?

Do you think they know about the plight of your surgeons trying to help these kids without money?

Dr. **Shurtleff**. I can't speak for any agency, but I can say the American Academy of Pediatricians will undoubtedly support this document very strongly.

Mr. **Rangel**. Let's get a statement from them. I will.

I share with Mr. Anthony's feelings of appreciation. On behalf of the entire committee, I would like to thank staff and the offices of Congressmen Lowry and Pritchard for assisting us in putting together the most productive hearing we have had on these issues.

[Whereupon, at 5:30 p.m., the hearing was adjourned.]

[The following was submitted for the record:]

STATEMENT OF LESSIE LARIS, PRESIDENT, LOCAL NO. 3197, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Good afternoon. I am Lessie Laris President of Local 3197 American Federation of Government Employees, at the VA Medical Center in Seattle. I am here today for myself and my co-workers, to express our serious concern over government actions which we believe are unjust and which hurt large numbers of people. I urge you to look carefully at the hidden costs in many so-called economy measures which reduce or eliminate human and health services.

Right now, federal employees are angry over changes in employee health insurance. Our premiums went up (because the government has chosen to pay a smaller share)—in some cases, up more than 50 percent—with no advance notice to employees. After the price changes took effect, notices were posted in the hospital. And our benefits were also reduced at the same time, not only without advance notice but also with no details of the changes for several days after they took effect. There still has been no information provided directly to workers, although a list of changes was eventually posted. Employees have little opportunity to compare the now-changed plans to choose the best one for their and their families' needs, and no opportunity to change plans if they wish: Personnel tells us they have "no information on when or if an open season will be held." During this "information gap," there was no let-up in our payments, of course. Binding people to contracts when they have no choices or bargaining power gives a poor example of an elected government dealing with citizens and employees.

Around us, we see important programs being cut and services taken away. Our purchasing power falls behind inflation, so while the cost of necessities like food, clothes, housing and health care increase 8 to 12 percent, we received only 4.8 percent cost-of-living adjustment. And many citizens receive no cost-of-living adjustments at all. Illness and injury cost more than just expensive medical and hospital care; they cost us lost days at work and lower productivity. Yet while occupational injuries are on the increase, safety inspections and protections in the laws are being decreased. Over 3 million work-related injuries are expected this year according to two federal agencies (National Institute of Occupational Safety and Health and the Consumer Product Safety Commission), but both state and federal agencies have fewer people to enforce laws.

How can these cuts be called savings? More people are unemployed, more people are disabled, more are elderly, more are forced onto welfare, more are denied important services and care altogether because they can no longer afford them. All of us bear these costs, whether or not government budget writers recognize that fact. As taxpayers, as federal employees, as members of our communities, as breadwinners in our families, and as voters in state and federal elections, we object to these cuts in human and health services.

American Medical Association,
Chicago, Ill., February 25, 1982.

Hon. Charles B. Rangel,
Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, Washington, D.C.

Dear Chairman Rangel: I am responding to your letter dated February 10, 1982, requesting the views of the American Medical Association on testimony provided to the Committee on January 19, 1982, by David B. Shurtleff, M.D., concerning impacts of budget cuts on the Maternal and Child Health program in his area.

The American Medical Association has long supported increased funding for programs directed to Maternal and Child Health, especially Title V of the Social Security Act that provided grants to states for services to mothers and children, including those physically-handicapped children described in Dr. Shurtleff's testimony. Several years ago the American Medical Association, along with the American Academy of Pediatrics and the American College of Obstetricians and Gynecologists, developed draft legislation designed to increase authorized funding and improve operation of the Title V program. Unfortunately, these bills were not passed by the Congress; in fact they never received hearings before any Committees with appropriate jurisdiction.

The AMA still believes it is necessary to have a central focus for health programs concerning mothers and children. We have recently communicated our continuing support to HHS Secretary Richard Schweiker for establishment of an Office of Maternal and Child Health to serve as a focal point for the myraid programs within the Department directed to maternal and child health. A copy of this letter is enclosed.

The AMA has supported the concept of state-operated health block grant programs. In the Maternal and Child Health area, state operation of the program is not new or unique, since Title V was basically a federal grant program to states which then contracted or granted funds to local operating entities. It is our view that state administration is the appropriate level to operate effective Maternal and Child Health programs.

AMA realized that with the entire federal budget coming under close scrutiny and with across-the-board cuts being demanded in virtually all programs governmentwide, health programs, including Maternal and Child Health, could not remain immune from any budget cuts. It was our view that funding should be set at a level that would not impair service delivery but would encourage streamlined state administration and reflect savings anticipated from the termination of federal program administration.

The Omnibus Budget Reconciliation Act, PL 97-35, established a funding authorization level for this block at $373 million. While this is a substantial reduction from the appropriated levels during fiscal year 1981, it is still substantially higher than the amounts appropriated by the Congress for funding of these programs under the Continuing Authorization Resolution. In considering this block grant, the Senate Appropriations Committee reported a funding level at $351 million for this program. The House of Representatives in passing HR 4560, appropriated this block grant at only $331 million. These appropriations are well below authorized levels. We believe that Congress should provide funding for the Maternal and Child Health Block Grant to the levels authorized by PL 97-35.

The AMA appreciates the opportunity to comment on this subject. However, in light of the fact that we received only the testimony presented by Dr. Shurtleff and not others participating in the hearing and, since we are not aware of all the considerations involving specific cuts to programs being supervised by Dr. Shurtleff, we have responded generally with our views on funding for the Maternal and Child Health Care Block Grant. A major concept inherent in the Block Grant programs is that states will prioritize their needs and allocate resources to best meet those identified needs. The program also anticipates substantial reductions of administrative costs in program operation. The Committee may wish to contact the program Directors in the states covering Dr. Shurtleff's program to determine why he has been subject to extensive cuts as described in his statement.

If we can be of any further assistance in this matter, please feel free to contact us.

Sincerely,

JAMES H. SAMMONS, M.D.,
Executive Vice President.

[Attachment]

AMERICAN MEDICAL ASSOCIATION
Chicago, Ill., January 20, 1982.

Hon. RICHARD S. SCHWEIKER,
Secretary, Department of Health and Human Services,
Washington, D.C.

DEAR SECRETARY SCHWEIKER: The American Medical Association takes this opportunity to inform you of our support for the designation of an Office of Maternal and Child Health within the Department of Health and Human Services.

The AMA has long supported the creation of such an office to serve as a focal point and coordinating entity for the multiple and diverse programs within the Department that impact on the health of children and their mothers.

In amendments to Title V of the Social Security Act that were developed jointly by the AMA, the American Academy of Pediatrics and the American College of Obstetricians and Gynecologists and proposed for introduction in previous Congresses, a provision would have established such an office. Title V has now been incorporated into the Maternal and Child Health Block Grant. With the amalgamation of several programs within the block grant, we believe that it is especially important for an Office of Maternal and Child Health to be established within the Department to bring all related activities into one office.

We strongly urge favorable action on this matter.

Sincerely,

JAMES H. SAMMONS, M.D.

STATEMENT OF MILDRED WRIGHT, M.S.W., SUPERVISOR, MATERNITY-ADOPTION SERVICE, CATHOLIC COMMUNITY SERVICES, SEATTLE/KING COUNTY

When it was suggested that I submit written testimony to this Congressional hearing on the impact of Federal budget cuts in the State of Washington, I first wondered, "Why?". Surely each Congressperson who voted for the cuts knew at the time what the impacts would be: when human beings are deprived of food, they are hungry; without shelter and heat, they are cold and suffering; without medical care, they are sick and disabled; without mental health care, mentally disturbed; without safety, consumer, environmental protections, damaged and maimed.

The budget cuts were voted in with each member of Congress having full knowledge—simply because each is a human being—as to what the impacts would be.

But now there is a second look, I assume—at least an effort—to add up the "losses" and see if they were worth the "gains".

I supervise a service for unmarried pregnant girls and women, most of whom are without much, if any, moral and material support from family, friends, or the baby's father. They come to our agency, Catholic Community Services, as they do to other similar agencies—for guidance; help in arranging obstetrical care, housing, financial aid; counseling to help them decide whether to rear their child alone or seek adoption.

Until July 1, 1981, in Washington, such pregnant mothers (if they had insufficient insurance or funds) could count on Medicaid for obstetrical care. As of July 1st, they can receive Medicaid only if on or eligible for welfare.

The minor girl whose Dad or Mom is employed—even though the earnings are barely enough for the family to live on—cannot receive Medicaid. We had, in fact, girls who would have had their delivery care paid if they delivered on June 30th, but were cut off because they delivered early in July.

Most young women over 18 cannot receive Medicaid. They have a low-paying job which supports them but does not provide the $2,000.00 to $8,000.00 obstetrical care can cost. These young women in Seattle ordinarily seek care at one of two private low-cost hospital-clinics we have; it is doubtful that these facilities will be able to afford their "open-door" policy indefinitely. Our state-owned hospital—University of Washington Hospital—no longer provides any free or low cost obstetrical care.

Even worse—our State, following the Federal mandate, refuses AFDC to pregnant women without other children, until the seventh month of pregnancy. If ever a woman needs food and shelter, it is in the early months of her pregnancy. There are pregnant young women in Seattle who have to live in the shelters in our Skid Road area.

For the mother who decides to keep her baby—cuts in AFDC, daycare, food stamps, subsidized housing, educational programs, job opportunitites, make the prospect very grim. Maternal love is very strong and most young women elect to make the struggle. God knows how they will manage as more and more public supports are removed.

Some of our clients choose adoption. Because so many more of the mothers who place their babies for adoption have not had Medicaid, adopting families have to be able to meet much higher costs. We are fast approaching the time when only the "well-off" can adopt. Fine, moderate income families will not be able to afford adoption.

Perhaps Congress will redeem itself in 1982 for the damages done in 1981 to the lower and middle economic classes. Although the suffering of 1981 cannot be recalled, at least restoration of programs could prevent a continuation of the suffering.

If not, I do believe Congresspersons will have lost the gamble so many made in 1981. They bet that going along with the Reagan administration's proposals would bring them victory in the 1982 elections. I do not think so. I believe that the American people are basically decent—and sensible—and intelligent. They know they gave no mandate to dismantle the social and health services in order to enlarge the military-industrial complex; they care about their neighbor's suffering but are in no position to personally meet their neighbors' medical bills and living expenses.

The now silent—somewhat dismayed—"Sensible Majority" will take the one bit of good advice the President has given. They will "vote with their feet". With strong, steady steps they will go—the poor, the disabled, the elderly, the single mothers, the adoptive parents, the unemployed—they will go to the polls in November 1982 and again in November 1984, and vote out of office those responsible for the budget cuts.

Ordinary people—voters—are more and more realizing that the administration is the problem. Congress would be wise to quickly disengage itself from the administration's war on the poor.

STATEMENT OF JAMES A. LEGAZ, M.S.W., BALANCE OF STATE COORDINATOR, VOLUNTEER CHORE MINISTRY PROJECT, CATHOLIC COMMUNITY SERVICES, SEATTLE/KING COUNTY

STATEMENT OF PURPOSE

Based on our experiences working with the elderly, we present this testimony today to call for adequate support of social services for the elderly.

1. The present system of services to the elderly cannot sustain additional cuts in funding.
2. Previous cuts in funding for the present system of services should be restored. A segment of our elderly population is suffering immeasurably due to those cuts.
3. If cuts cannot be restored and present funding levels cannot be maintained, a new more cost effective system of social services to the elderly might be developed. This new system would be based on a new partnership between the formal agency network and the informal community network.

Development of this new social service system would require adequate transition planning focused on the needs of clients. It is irresponsible to cut services and then plan for those in jeopardy.

INTRODUCTION

Catholic Community Services of Seattle/King County at the urging of the Church Council of Greater Seattle and the local Area Agency on Aging, responded to cuts in the state chore services program with a Volunteer Chore Ministry program operating initially through local Catholic Churches. An outgrowth of the King County project has been a contract with the State of Washington to provide volunteer in-home services in approximately two-thirds of the state. It is from that experience and those contacts with the elderly that we present this testimony.

BACKGROUND INFORMATION

In reaction to budget dilemmas created by the reduction of Title XX Funds on the federal level, the Washington State Legislature, in their last regular session, reduced funding for chore services for the elderly and handicapped $28 million for the biennium by changing the eligibility criteria. Previous to these changes, elderly and handicapped qualified for in-home chore services if their income was at or below 57 percent of the state median income ($603 for a single person, $788 for a couple—figures adjusted for inflation). The new legislation fixed eligibility as a monthly income at or below 30 percent of the state median income ($317 for a single person and $415 for a couple).

As a result of these changes, in the State of Washington 3,000 elderly and handicapped were terminated from the state contracted program and 5,000 were reduced in hours of service. These elderly and handicapped relied on community aids, who were paid from $3.45 to $3.80 per hour, to do housekeeping, purchase groceries, do laundry, etc.—tasks of daily living which spell the difference between an independent life in one's own home and one's own community and nursing home care or death. These clients were being maintained in their own homes with 4 to over 140 hours of service per month.

OBSERVATIONS

Catholic Community Services' project is relatively new throughout the state—from four months to three weeks old. In King County, however, the project was initiated in mid-March and is now nearly ten months old. As such, the bulk of our experience comes from within King County. But as our program offices open across the state, and the community becomes aware of them, they have literally become deluged with referrals—stories of need, fright and desperation. Recently, a new office received approximately 80 referrals on one week.

In King County, since mid-March, we have processed in excess of 1,000 referrals. Included among those are:

(1) An 89 year old partially sighted woman providing full time care for a 67 year old nephew who is severely ill and incapacitated. The were reduced from 81 hours a month chore services to 29 hours a month. The aunt knelt down at the door, with tears streaming down her face, kissing the hands of the Parish Volunteer Coordinator when she came to offer assistance.

(2) An 80 year old widow, total income $381 per month, with terminal cancer, heart ailment and severe arthritis who was totally eliminated from the program.

(3) An 85 year old woman, blind in one eye, victim of several strokes, who had two serious falls after her chore hours were reduced significantly.

(4) An 86 year old man, partially signed, severe arthritis, who is ambulatory only with aid of a walker was cut from 37 hours of in-home help per month to 0 because of income minimally over the eligibility criteria.

(5) An 84 year old cancer victim who has had 22 surgeries, the last one on the brain. She has one-third of her stomach remaining, she vomits blood, both breasts were removed in addition to other internal organs. She is terminally ill and eliminated from the state contracted program.

The stories of desperation could go on and on. We are not reporting on a few isolated cases. There is a fairly large component of the elderly population who are experiencing extreme difficulty in maintaining themselves in independent living situations.

The cutbacks in the formal senior serving programs have left a system which is failing a large number of our elderly citizens. Talk of additional cutbacks, increased deductibles, tampering with ability to survive.

The contract we have with the State of Washington utilizes Senior Citizens Services Act funds and is supposed to restrict our response to those over 60 years of age. Because the state has made no provision for handicapped citizens under 60 years of age who have been cut from in-home services, Catholic Community Services has attempted to also provide volunteer services to that group. We have had a large number of referrals of handicapped persons of all ages—paraplegic, quadraplegic, terminally ill, etc. who are struggling mightily to maintain a degree of independence and integrity against the shrinking odds of shrinking services.

Above and beyond requests for in-home chore services, as the weather begins to turn colder, we are beginning to get an increasing number of calls from elderly residents who cannot afford heating fuel and are requesting coats, sweaters, blankets and heavy socks. We are experiencing a group of elderly who literally must choose between nutrition, prescribed medication, heat and adequate housing. The obvious fact is that there is no choice and ultimately a crisis situation results.

The Volunteer Chore Ministry attempts to provide on a volunteer basis what is needed but unavailable through the formal service network. A great many positive things have been accomplished on behalf of the elderly and handicapped. This we do not wish to discount. However, in some instances the volunteer network is called upon to provide services which require a level of skill which is not always available among the local volunteer corps—insulin injections, bathing, transferring, re-positioning, etc. When it is a service that is needed but which cannot be obtained from the formal service network we believe there is no choice but to respond. But these situations continually underscore for us the effects of budget cuts for the elderly and handicapped.

CONCLUSION

The Church steadfastly believes in the sanctity of human life. Further it believes that the protection and enhancement of that life is a right owed to each citizen. This unquestionably is a function of our government. In order to mediate the present situation it may be necessary to develop a new, more cost effective system of social services for the elderly; one that is based on a new partnership between state and church and between formal and informal networks. If that is to be done, it must be done with careful transition planning focused on the needs of clients. Services provided through the existing formal system should not be withheld from the elderly until those services can be met through some newly created system. To do so is wreckless and irresponsible. And the burden of that wrecklessness and irresponsibility is borne by those least able to sustain it, namely the frail elderly and handicapped.

Thank you for the opportunity to provide this testimony.

STATEMENT OF DENNIS DUFFELL, ADMINISTRATOR, CHURCH OF THE IMMACULATE CONCEPTION, SEATTLE, WASH.

I wish that I could be with you in person to give to you the testimony in person that I can only partially give through these words on paper.

I am Director of the Immaculate Community Center, and also Administrator for Immaculate Conception Church, Seattle's oldest standing Catholic Church, a multiracial parish in the heart of the Central Area of Seattle. Our parish and neighborhoods are low-income, with many parishioners and friends in the categories being axed by the current Administration and Congress.

I tell you bluntly that I am willing to support my wife and three children on an income low enough to qualify for food stamps (which I do not accept) because our parish itself has so little money—and I remain here because of the services we provide to the community. We provided these long before the government decided to throw all these additional problems to the "private sector," and we will endure in some way or another to minister to and with our people, in spite of the hopeless tasks before us.

Government's actions are cruel; they are intentionally in favor of the rich; they spend money on worthless bombs and guns while our people are jobless, homeless, or poorly educated. There is no justice or charity in the "bottom lines" being followed.

But we will endure. We will endure while our people are growing more restless and hostile, and violence-prone. I will be here to absorb, to share the pain, and to raise my voice when I can—to government bodies that I have little confidence in at present.

Some things are going to explode, and the choice that lawmakers make for the implements of violence over human needs will return to infect our communities with the violence of deprivation, despair, and maybe even flames.

I pray for you all in your tasks. I pray for your souls, for the return of your senses and judgement. I will be here, and we will endure somehow.

SEATTLE/KING COUNTY COMMUTER POOL

The van you are riding in is provided courtesy of Seattle/King County Commuter Pool. Commuter Pool is a regional public ridesharing agency recognized by President Carter and recipient of the President's Energy Efficiency Award.

This vehicle is part of a fleet of 133 vans that make up the successful Commuter Pool Public Vanpool Program . . . another form of public transit! Each Commuter Pool vanpool . . . assures maximum efficiency of our transportation system investment by removing at least seven cars from the road; and demonstrates the success of vanpooling as a "public-private partnership."

Vanpooling in Seattle has flourished, from a pilot program of 21 vans to a fleet of 133 twelve and fifteen passenger vehicles in less than three years. Further expansion seems very likely, as local Metro Transit policy makers have made provisions for 1,300 vanpools by the year 1990. These vans will augment ridesharing in areas typically not well served by conventional public transit.

Commuter Pool is also working with the IRS to clarify the Economic Recovery Act and it's impact on public vanpooling, as well as working to extend the benefits of Safe Harbor Leases to public vanpooling. Although Commuter Pool vans meet the definition of mass transit commuter vehicles according to the Act itself, the preliminary regulations issued for the new IRS rules indicate that vanpools may be excluded from the tax advantages offered other forms of public transit. Safe Harbor Leases will help assure that public vanpool fares may remain competitive and attractive.

SEATTLE, WASH., *January 19, 1982.*

COMMITTEE ON WAYS AND MEANS,
House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR SIRS: I just learned that there is an opportunity to tell a Congressional delegation what the Reagan Administration has done to us. I have little time, feel hopeless and disenfranchised, but I must try. I am 53, my husband 60. We published a highly respected book in our field, Rahabilitation, in 1978. We have worked steadily in all our adult lives—until now. We come from a tradition of public and social service. The other major interest and work in our family is in the arts. We are out of work for the first time—trying to do all we can in a society where military bands have a budget of over $80 million and there is no money for hungry children, mentally ill adults, striving young students—minorities, needy and elderly are discriminated against.

The difference in the way I feel now compared with all the rest of my life . . . I am a Roosevelt child, you see. I use a lot of eye drops. My eyes seem to be red much of the time, I don't sleep very well, really, and cry easily. I work hard and keep functioning in meetings and committees as well as at work, but I feel a general, underlying fear, hopelessness and defeat.

I am afraid to buy anything. Christmas I made decorated pin cushions out of scraps of velvet and sequins for my friends. I try to stay out of the stores. The carpet on the stairs is worn and looks really shabby. I wonder if we will ever have it replaced. My 1978 Granada (we insisted on buying an American car and paid cash for it) has freckled spots and I do not have it painted properly. I have learned to take the bus to save money on parking, but it takes more time.

I worry about us . . . about our adult and struggling children. About a whole world of people we know who are expert at teaching, counseling, healing and motivating others . . . who suddenly in the course of a year feel cast aside and not valued or needed by our society.

My husband is totally blind. He is an innovator in rehabilitation. He obtained a Ph.D. in psychology when few blind people had been able to mobilize and adapt sufficiently to a sighted world to do that. He is vigorous and gifted and able. He did not get tenure at his teaching post last June. He has been turned down for a number of jobs which were beneath the challenge of which he is capable. He is on boards and committees . . . the Mayor appointed him to the Human Rights Commission. How can it be that he is not being valued and used by our society . . . his wisdom, his experience.

I have no more time. Must catch a bus downtown for a little work . . . a few hours' pay in an insecure new private rehabilitation firm. I am beginning to weep. No time for that . . . besides, it makes my eyes red and gives me a headache.

I feel strongly that all of this turning away from people's needs will cost us dearly . . . more expensive when we wake up. I do believe people will come to see the folly, but I am not confident that I will be around to see it . . . be apart of it.

I am amazed at how effectively brainwashed many have become. We hear at meetings—"everyone has to cut"—"we must not expect to continue these programs in such hard times". But they are not hard times for everyone.

As the distance grows between the "haves" and the "have nots" and as the "have nots" become larger and larger in numberts, I hear the conservatives begin their excuses, "The cuts were not deep enough"—"We didn't get our way in all things." There are those who exploit the misfortunes of others and gain in power and wealth during generally bad times.

We are, however, a highly interdependent society and I do not believe the currently powerful can continue to prosper indefinitely while so many Americans are cheated out of their opportunity for fulfillment and economic achievement.

CHARLIS DUNHAM, M.A., *Psychologist.*

SEATTLE, WASH., *January 19, 1982.*

COMMITTEE ON WAYS AND MEANS,
House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR COMMITTEE MEMBERS: At first I believed that President Reagan and the citizens who support his point of view should have the opportunity to test their approach to the many economic and other problems of the country. I believed their approach was wrong, but since I am not omniscient, their followers seemed a majority, and because they had waited a long time to test their methods, I was content to give them the opportunity. I am no longer patient or tolerant of their methods or point of view.

My work has been that of a rehabilitation psychologist. I am on the Governor's Committee to Employ the Handicapped, the Washington Coalition of Citizens with Disabilities Board, the Seattle Human Rights Commission, as well as other organizations and boards that deal with the disabled. As I see it, some of the consequences of President Reagan's cuts are: (1) paranoia and despair, particularly among the psychiatrically impaired populations; (2) because of the impact on this state, together with this state's own economic problems, many agencies, organizations and other support services for the disabled have been diminished or totally cut off; (3) the disabled community in the State of Washington has been very active in the last six years and believed it was making progress in establishing opportunities for independent living, removal of architectural barriers and opportunities for employment. Many of the meetings in the last few months have shown an atmosphere of gloom, realization of retreat from civil rights for the disabled, and a general awareness that things are going to get worse before they get better, if they get better; (4) perhaps the most significant consequence of President Reagan's cuts and philosophy is the abandonment of the philosophy (and although we do not know how to correct mankind's woes, we know a lot about it and we believe) that as long as we try that there is a large hope that suffering can be alleviated. To say that we will no longer try, but instead assist the fortunate to do better and by fortuitous osmosis those further down the economic ladder will somehow benefit is a callous and cynical self-congratulating philosopy that may take many years to turn around and whose consequences may bring a more riotous reaction than is anticipated.

This last item, that is, what the advisors anticipate as consequences, is the real tragedy. President Reagan's advisors are gambling upon an approach that I believe is wishful thinking and they have not had a depth of understanding to realize the complexity and the accumulative nature of the consequences.

I have been totally blind since I was 16. I have been the head of a state agency for the blind and an assistant teaching rehabilitation classes at Seattle University. Now in my sixty-first year, I have been applying for jobs for the last sixteen months without success. In attempting to establish a private practice, I have come across many social service workers and other unemployed people who do not know which way to turn. Because of the economy my private practice has not grown, and as the economy becomes worse, it appears it will dwindle.

JEROME R. DUNHAM, Ph.D.,
Psychologist.

KELSO, WASH.

To Whom It May Concern:

I work at the Goodwill, there I am a phone solicitor. I did not need any training for this as I had done phone work before, yet I get paid only $2.60 plus I work only 30 hrs. a week, yet the Welfare thinks I earned too much in Dec., 1981. Could you live on that? The first of Jan., 1982, they raised our taxes, but not our pay.

Why do not our President, Congress and Senators take a cut in their wages?

Why don't you force the younger people work instead of the middle age and elderly? I was cut off welfare for three months for what I earned in Dec., 1981. I don't like being on welfare, but my husband moved me out so that he could live with a much younger woman with two children that is on welfare and she tells the welfare that she is living alone.

There are three of us here today, we would like to tell you how the welfare is treating everyone.

Why are you making it so hard on the poor and elderly?

Why if you are married, do you have to separate to get help from the welfare, why is such a law legal?

If there is a blank space, the three of us would like to give testimony.

RUTH FAHNESTOCK.

STATEMENT OF PATRICIA J. BARNES, M.D., CHAIRWOMAN OF THE HUMAN AND HEALTH SERVICES NETWORK, AND COMMITTEE CHAIRWOMAN OF THE AMERICAN MEDICAL WOMEN'S ASSOCIATION

Honorable Representatives, the Human and Health Services Network is a recently formed, state-wide organization, the goal of which is to provide an umbrella structure for all the agencies, service organizations and workers in the area of human and health services to unite together to share information and resources, and in order to take more effective political action in a time of real crisis.

The participating organizations in the Network share 4 points of unity which can be simply stated as follows: First, we see the present cutbacks in federal, state, and local funds to human and health services as representing a real and imminent threat to the whole community. We see the immediate and projected cutbacks as sufficient to supress and limit the poor in their struggle to overcome circumstances. The elderly, minorities, the young, the mentally and physically disabled are, and will continue to be, hardest hit. We are opposed to any further cut backs in these services at the fedeal, state, or local levels.

Second, we are united in trying to preserve quality of care and comprehensiveness of service in these areas. We are concerned about loosing ground in the progress made in social and health services over the past 20–30 years. Research and direct experience have elucidated many cause and effect relationships underlying social and health problems. Government grants and locally funded programs have evolved hand and hand with this information, resulting in preventative measures which have improved the quality of life in this country. In this inter-related society the lowering of standards of care in one socioeconomic group will result in the lowering of standards for all. For instance, clearly the public health or the entire community can be jeopardized by untreated illness in a whole segment of the community.

The sweeping nature of the cutbacks, the unprecedented swiftness of their occurrence, and the poorly planned and poorly funded transition efforts to more local control—all combine to threaten the cohesiveness and efficacy of this interdependent system.

Third, as workers and primary care providers in the human and health services we frankly disagree with many of the economic arguments presented as justification for the elimination of services and the crippling of others. (see below)

Finally, we are united in a conviction that it is the role of society to provide high quality human and health services and to publicly finance them for people who cannot pay.

From our point of view, there are several good social and economic arguments that can be made it the support of sustaining social and health services at the federal level: First, the recent and projected cutbacks in the Medicaid and Medicare benefits, together with cutbacks in "categorical" programs, etc., will necessitate a shift in health care delivery away from out patient and preventative care, toward vastly more expensive acute care (emergency treatment, in-patient care, ICU, etc.) Furthermore, these programs prevented destructive social and health problems as Government studies have attested. (You are probably aware of the recent and last report of the National Council on Economic Opportunity which asserted that antipoverty programs worked and helped lift people out of poverty.) Eliminate these services and there will be expensive remedies down the line.

Second, as workers in social and health services we do not believe there is any justification for the Administration's assertion that the private sector can or will fill the gap left by the cutbacks. Despite good intentions and high motivation to do so, the private sector may well find it financially impossible to take over the burden. In Washington State, the Washington Association of Churches together with representatives from the Catholic Archdiocese of Seattle, the Americal Baptist Churches of the N.W., and the WA-N. Idaho Conference of the United Church of Christ have outlined their financial limitations and are promoting a graduated income tax at the state level for the preservation of human and health services. Private practitioners (and I am speaking from personal knowledge and with the backing of the American Medical Women's Assoc.) are beginning to feel their own inflationary costs, and to feel the effects of cutbacks in the kinds of services covered by Medicaid and Medicare. [I have not been able to get the report of the study done in the fall '81 by the King County Medical Association, assessing the ability and willingness of the private sector to take on increased numbers of low paying or non paying patients. Only a general statement has been released thus far which reports that of the 47 percent who replied, 68 percent were able to take on "some low paying patients". No comment was made about non paying patients ("The Bulletin" KCMS Nov. 1981).] The Network is convinced from its position inside the health care delivery system that the care provided by community-conscious private physicians will be insufficient to meet the needs of the large number of persons being affected by the cutbacks in social and health services. I would refer you to the KCMS's study and others like it.

Private industry has and can rally to procure some funding to fill the gap left by the retraction of Federal funds. However, if the experience of the King County "Project Transition" launched by local businesses is typical, forthcoming revenues will not be near adequate to provide good quality services (this organization raised 1¼ million—while losses in Federal revenues for the same target services are estimated at 30-40 million dollars). And King County is a relatively wealthy county.

Furthermore the private sector will not be able to fill the gaps in basic services because of lack of expertise in instances where volunteers are being relied upon, and because the private sector will not be able to provide comprehensiveness of care in other instances. Both situations result in ineffective care. For instance, volunteers simply cannot be expected to be able to treat severe emotional problems or sick children. The population of volunteers changes constantly and continuity of services will be lost. Again, WA state churches are expressing their limitations in this regard.

Private practitioners can of course provide specialized services. However, the range of services now provided by community programs will no longer be available to the private M.D. Without specialized categoried programs, social workers, chore services, etc. the effectiveness of the physician's interventions will be severely limited. The socioeconomic groups we are talking about present with complex health, economic, and environmental problems and limited resources—all of which leads to a situation which requires a comprehensive approach not possible in the traditional, unidimensional private practice. I submit that the stress and frustration facing the private M.D. in treating this needy population will limit the number of patients of this kind any single practitioner will be able or willing to see.

Finally, we feel that our State legislature is unused to allocation funds for many of the programs formerly developed through primarily Federal channels. There is little time for the machinery or expertise to be developed which would ensure an efficient transition and effective continuance of the program and services at issue. There is no guarantee that the same standards and qualifications for funding will pertain. Furthermore, and most damaging by far are the lack of Federal funds for transitional purposes. (This presupposes that the Federal government has had a mandate from the public to decentralize responsibility for these services).

The Network for Human and Health Services is made up of people who experience first hand what cutbacks in these services are doing to the poor and to working class people. Furthermore, members are in positions to predict the long term implications of this "transition" to private and local funding. Spontaneously and simultaneously we are responding to a foreseen catastrophe.

In the Administration attempt to balance the budget it has set new national priorities and has reorganized basic national institutions. These are serious actions and deserve careful and responsible consideration if our society is to continue to be healthy, well educated and productive, and if our national values are to be preserved. This hearing is one such responsible action and we thank you for the opportunity to present our views.

HEALTH AND HUMAN SERVICES NETWORK

Alliance of Human Services; American Federation of Government Employees, Local 1170; American Federation of Government Employees, Local 3197; American Medical Women's Association; Asian Counseling & Referral Service; Association of Washington State Legal Services Programs; Coalition for a National Health Program; International Federation of Professional & Technical Engineers, Local 17; Medical Advocacy program for Developmentally Disabled; Urban League; The Welfare Coalition; and East King Council of Social and Health Services.

STATEMENT OF HEALTH AND HUMAN SERVICES NETWORK, THIRTY-SECOND DISTRICT, BY ANTHONY LEE, AND OTHERS

The Health and Human Services Network was formed last Fall to oppose cuts in health and human services programs. The Network consists of hundreds of union workers, health professionals, elderly citizens, welfare recipients, and concerned citizens. The Network is divided into State legislative districts which have autonomy to decide on what political actions to take, yet which are united by the belief that government has the responsibility to provide for the disabled, elderly, sick, needy children, and other disadvantaged citizens. The Network's goal is to make citizens aware of budget cuts in health and human services and to mobilize citizens to fight such cuts.

This testimony is being submitted by the Network's 32nd District. The 32nd District is made up of several Seattle neighborhoods which lie just north of Lake Union and west of the University of Washington: Ballard, Wallingford, Greenwood, and Fremont. The majority of the people in the 32nd District belong to the lower-middle and middle classes; the overwhelming majority are white, with a significant number of persons of Scandanavian descent.

The 32nd District has been hit hard by federal cuts in health and human services. The Fremont Women's Clinic was forced to eliminate its prenatal care program because of the loss of six CETA workers. This means that needy young women with their first pregnancy now will be unable to get prenatal medical care. Also, the clinic lost State funding for its program for victims of sexual assault.

The Fremont Food Bank also was hit hard by federal cuts. It has lost two CETA workers and will soon lose two VISTA workers. The Apple-A-Day Community Health Education and Outreach Program has lost its federal grant and has received no State or local funds to replace this loss.

The residents of the 32nd District are faring no better than its social service agencies. As in the rest of Seattle, thousands of 32nd District residents are going hungry. In November of 1981, the Fremont Food Bank served 5,624 individuals and 1,731 households. This represents a significant increase over the number of households served in November of 1980.

Over one-half of 32nd District's residents who received a small AFDC check to supplement their earnings will lose their AFDC check in February. This is due to President Reagan's welfare "reforms" enacted by Congress. Many of these women will be forced to give up their jobs and become totally dependent on welfare, as they will no longer be able to pay for child care, medical insurance, and other work-related expenses which have previously been paid by the AFDC and Medicaid programs.

Many young women of the 32nd District who become pregnant for the first time are no longer eligible for AFDC benefits during the first five months of pregnancy. Again, this is due to the welfare "reforms" enacted by Congress which prohibit states from paying AFDC payments to pregnant women with no other children until their sixth month of pregnancy. Since October 1st, when the prohibition against providing AFDC took effect, a Seattle-King County Health Department social worker in the maternal and infant care and adolescent pregnancy program has had a number of desparate young women seeking help. One took an overdose of aspirin; one is having nightmares; several said they are stealing to survive; and many have decided to have an abortion.

Many residents of the 32nd District are among the 4,490 workers in North Seattle drawing unemployment benefits through the Lake City employment office. Others are among the 3,526 drawing unemployment benefits at the Bell Street office. The average unemployment check is about $90.

Several mothers in the 32nd District have had to quit their jobs because of cuts in Title XX funds which have paid for the child care costs. The only alternative for these women will be to quit their jobs and go on public assistance. Once on public assistance, these women face a situation where there are no WIN funds available for paying the costs of child care, transportation, and training for those women who seek training to become employed. This is due to the recent federal cuts in the WIN program.

Many residents of the 32nd District are homeless and have to sleep in their cars. Electricity shut-off notices from Seattle City Light to Greenwood residents alone average twenty-five per month. Even water shut-offs are occurring. Our senior citizens are literally being forced to choose between paying for their utilities and buying needed food.

In addition to the federal cuts, needy persons in the 32nd District have had to bear the brunt of cuts in health and human services programs enacted by the State legislature during the 1981 session. During that session, several programs serving needy persons in the State were drastically reduced. Welfare programs suffered a $60.4 million reduction; medical assistance programs, $116.8 million; social services programs, $182.9 million. Because of the continuing financial crisis that the State is facing, it is expected that additional cuts will be made in the next few sessions.

The Network's 32nd District is appalled by federal cuts in health and human services programs. The Network realizes that—despite the rehetoric—President Reagan and Congress have *not* reduced the federal budget. The Network is well aware that the reductions in social service programs have been more than offset by huge increases in the defense budget, resulting in a larger federal budget and, more ominously, in a larger deficit.

The Network's 32nd District is unequivocally opposed to this massive shift of funds from social programs which provide for the basic needs of our citizens to military projects which bring us even closer to nuclear annihilation. We believe that the national interest is best served and protected by programs which provide food to the hungry, medical care to the sick, education to the children, and security to the elderly—not by unnecessary weapons of destruction.

We believe that at the core of the American system of values lies the belief that a civilized society and government are to be judged by how it takes care of its needy citizens: its children, elderly, disabled, sick, and other disadvantaged citizens.

STATEMENT OF DONALD W. HOPPS, DIRECTOR, HUNGER ACTION CENTER, SEATTLE, WASH.

I would like to state that I have read Michael Richert's testimony and that it conforms to our experience at the Hunger Action Center.

The Hunger Action Center is a non-profit, community based organization which serves food action groups throughout the State of Washington. We provide training and support services to food banks, self-help projects, and other feeding programs. We engage in research and collect information pertinent to their needs.

It is our experience that persons being fed through these various feeding programs has doubled in the last year. This increase has been primarily in two categories of need. First, there is a heavy increase in the number of families seeking this kind of help. Second, people whose benefits from social programs have been cut are now coming to these feeding programs for help to tide themselves over more often. We now see these individuals appearing in food banks or at kitchens earlier in the month.

While private giving and volunteer support has increased somewhat in the last year, such support is certainly not commensurate with the increase in demand. But, the comparative volume of newly available support as opposed to new demand is merely the beginning of the story. There is much more that is wrong with the idea that private contributions or volunteer efforts will suffice to meet the need. In light of the problems, President Reagan's suggestion that it would amounts to either monumental naivete or a cruel hoax.

Our experience over the years with food service programs is that they require a mix of volunteerism and professionalism. Private contributions require a foundation of public monies in order to be built into a successful program. The fact is, both the increase in demand and the increase in the need for and use of volunteer support has put a tremendous strain on the professional staffs of food service agencies. The need for professional support staff has increased greatly at the same time both state and federal programs providing this kind of support have been cut drastically. I do not believe it is an exaggeration to say that many private programs are in danger of collapsing under their own weight. In a situation like this, one more volunteer becomes a curse rather than a blessing. To volunteer becomes an occasion for disillusionment. In short, government reneging on its commitment to meet social needs places private, community based providers in grave peril.

It is important to restore the partnership in overcoming social problems that existed before last year's devastation.

STATEMENT OF JOHN S. CHILSON, PRESIDENT, BOARD OF DIRECTORS, LOWER COLUMBIA COMMUNITY ACTION COUNCIL, INC.

This testimony is presented to you from the Board of Directors for the Lower Columbia Community Action Council located in Southwest Washington.

The major industry in our area is based on lumbering and wood products. This industry is probably one of the hardest hit in the nation by the present economic conditions. Housing starts are down, interest rates are up resulting in unemployment rates of well over 15 percent, and still climbing. Able-bodied wage earners with 20 years of steady work experience are facing the bitter realities of standing in unemployment lines.

At the very time when people are finding themselves more vulnerable and dependent, public funds at all levels are diminishing or being prioritized for different purposes. Employment training programs (except for the extremely unskilled) have been eliminated; even employment listing and testing has been eliminated locally with just unemployment claims being procesed at the Employment Security Office. The Displaced Homemaker Program has closed and the Senior Companion Program has been terminated.

Eligibility for many services has been drastically reduced to eliminate large groups of people. For example: Food stamps, Aid to Dependent Children, and Chore Services for the elderly and disabled. Two-parent families are now determined ineligible for public assistance or the training programs offered through the Department of Social & Health Services. As a matter of fact, the whole work incentive (WIN) program has been eliminated that served Cowlitz and Wahkiakum Counties.

Publicly supported housing for the poor and elderly has much more stringent eligibility criteria which limits those that desperately need low-cost housing. And, still there are long waiting lists of people waiting to be accepted into the extremely limited public housing available. Any increase in the number of units available or allowed by federal housing programs is dim.

Besides the basic income and survival program reductions or eliminations, we have wholesale reductions in other services that have support roles or are preventative in nature, such as: public health services, developmental disability programs, mental health services, drug abuse programs, counseling services for the elderly, information & referral programs, minority programs, rehabilitation services, legal aid, etc.

The results? Emergency Food and housing requests have increased; Requests for assistance to pay utility bills has soared; Police Departments record higher crime rates; The Battered Womens Shelter is filled (while experiencing drastic cuts in their funding and staffing support; the Child Abuse case loads have increased.

It is our feeling that any "safety net" established by the President of the United States to protect the poor and elderly is failing. People are suffering. Indeed, supply side economics seems simply to be a new twist on the old adage, "The rich get richer and the poor get poorer."

The Board of Directors of LCCAC respectfully request that you seriously assess the current impact of the Administration's budget cuts and economic recovery plan on the people in our Nation. We ask you to act responsibly and decisively to represent all peoples. We look to you to take a strong leadership role.

Thank you for this opportunity to present our concerns to you.

STATEMENT OF TAIMI HALONEN, COORDINATOR, PEOPLES COALITION FOR PEACE AND JUSTICE

Governor Spellman has spelled out, in very specific terms, the crisis our state faces:

Unemployment at 11 or 12 percent in the immediate future (much higher among the unskilled and minority communities). (Thousands of first-job seekers who have no hope of finding a job).

$1.5 billion already cut from state programs.

Prisons bursting at the seams, and 1,000 more prisoners expected this year.

$144 million shortage of revenue in the next 17 months.

And a $400 million bank loan that needs to be paid off in nine months (with interest).

Despite this, the Reagan administration and Congress are asking the state to take over programs which hitherto have been at least partly, financed by federal funds. It simply can not be done.

What the cuts made by both Congress and the State Legislature mean in human terms, has been documented by a number of agencies and organizations. In Seattle hundreds of families are suffering through the current cold spell without heat; over 80,000 are dependent upon the food banks for a subsistence meal. Workers running out of unemployment compensation. Large corporations firing their employees and then re-hiring at half the wages. Unions are asked to take wage cuts in face of soaring food costs.

All this and more while $1.5 trillion is allocated to the Pentagon for the next five years.

We urge you to return to Congress determined to restore the cuts already made, and to launch new job-creating programs to meet human needs: Health care, education, child care and/or housing, all of which are labor intensive and would provide jobs for thousands of workers . . . far more than any of the military contracts do.

We urge that you reject any funds for "civil defense" for nuclear war knows no limits, and must never be allowed to start.

The funds are there. It is your job to allocate them—to change priorities—to take care of people—not the Pentagon.

Furthermore: We urge that you withdraw military and financial aid from those countries which are murdering their people by the thousands: Argentina, Guatemala; Chile, El Salvador, South Africa and others, in a vain attempt to prevent them from struggling against centuries of poverty, hunger, illness and illiteracy.

Training of El Salvadoran army officers and men is said to cost $15 million. That $15 million could better be used to build low cost housing which in turn would put our sawmill workers back to work. The 1,600 members of the El Salvadoran army endangers our youth, in that before long they would be drafted into "Rapid Deployment Forces" to defend the reactionary regimes we are now financing.

We ask you, in all sincerity, to oppose the registration and drafting of our 18, 19, 20 year olds. Instead, provide a decent wage, medical care for the members and families of volunteers and there would be no need for a draft.

The Europeans have a saying "The USSR is trying to tell us how to live. The USA is trying to tell us how to die."

Surely, as a key committee in Congress, you will work to change our image back to one in which no one goes hungry, nor without heat; where Martin Luther King's Dream can become a reality, and we can end the arms race.

REFUGEE FORUM OF KING COUNTY,
Seattle, Wash., January 15, 1982.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, Washington, D.C.

DEAR SIR: Since the announcement of the House Ways and Means Committee's hearing in Seattle on January 19, 1982, to examine the effect of federal budget cuts in financial aid and social services on various low-income groups, our body has been preparing some information about the impact these cuts have on refugees, and the needs which are not being met as a result of the changes in federal programs.

Refugees began arriving in this country from Southeast Asia in 1975, and have been arriving from Asia, Africa, South America and Europe regularly since that time. It has only been recently, however, that the federal government has attempted to formalize its interactions with the various refugee groups. Traditionally, refugees are admitted to this country to fulfill objectives of U.S. foreign policy and to provide a sanctuary to persons who are persecuted in their homelands. The Department of State has done a good job of admitting people, but can do little for them once they arrive. This responsibility falls to the administration of the Department of Health and Human Services, which, until passage of the Refugee Act of 1980, was compelled to conduct programs to assist refugees with action transmittals. Many accomplishments have been justly credited to H.H.S., but the lack of an overall federal policy to deal with refugee problems was felt in many ways.

The Refugee Act of 1980 attempted to remedy this situation; those of us working with refugees daily were encouraged by the linkage of admission of new refugees to the continuation of federal support for financial assistance and social service programs. We were pleased that Congress had finally chosen to involve itself officially in this program and had given some clear directions to policy which could apply equally to all areas of the country. Refugees receive AFDC benefits if they are single or members of families and are under 65. Those over 65, those who are blind, and those who are disabled can receive S.S.I. benefits. If laid off, they often qualify for unemployment compensation; while they look for work or study English, they receive help from programs funded by social service dollars under the provisions of the Title XX program. This heavy federal support for refugee programs needed some national supervision, and direction under a formulated policy rather than the temporary fluctuations of the bureaucracy.

Given this need, all service providers viewed the recent cuts in the budgets for social services with alarm. Refugee budgets are experiencing cuts which come at a time of austerity for all types of human services, which means that individual refugees usually have no types of programs to fall back on for assistance, or must try to obtain assistance from existing programs which are already overburdened. There is little reason to believe that the problems of refugees will automatically decrease along with the decrease in funding to address these problems. Most refugees need special help in the areas of:

Instruction in English and vocational skills;

Supporting themselves either through some form of public assistance and/or through finding a job;

Adjusting themselves to a world very different from the one from which they came, a process which can mean that mental health services are needed;

Learning how to understand and use the American health care system.

Now we are faced with a new problem. Because the federal budget is to be cut again, refugees are again sharing in the cut. This time, however, the cuts come in public assistance; they are being made without Congressional oversight, and they are being made in ways which will encourage the states to pick up much of the financial burden for caring for refugees. The responsibility for these programs has always been and must remain a federal one. Fiscally, administratively, and legally, it is inappropriate for the states to fund these programs. However, it begins to appear that appropriate federal responsibility can only be exercised if Congress involves itself in these issues regularly. We therefore urge that Congress review the existing budget cuts, and particularly the proposed cuts in public assistance for refugees before any additional action is taken. If the United States is to continue to bring refugees into the country, it must recognize that such immigration involves many readjustments for individuals over a very long period of time. There must be a continuing commitment to the programs which are necessary to assist refugees to make these adjustments and to adapt themselves to this new life. This program must be based on the experiences of the country in resettling refugees in the past, as well as an understanding of the role of the national economy in preparing refugees to enter the mainstream of American life.

We do not wish to see refugees added to the numbers of people living in the streets in major cities. We do not wish to see any more suicides, such as the one which occurred a few months ago in Portland, Oregon. We would like to see the numbers of refugees lined up a food banks decrease, and the numbers of refugees working increase. We know that the members of the Ways and Means Committee share these goals, and hope that the committee will support the efforts of local programs to meet them.

Sincerely,

JOHN RIESS.

STATEMENT OF ANCI KOPPEL, SEATTLE WOMEN ACT FOR PEACE

Seattle Women Act For Peace wants to emphasize that the bloated Federal military budget is one of the major reasons that the States, including Washington State, are in a fiscal crisis. The military budget is taking billions from social services, education and urban aid in all States. Washington State is no exception as budget cuts have been very drastic due to the cut off of millions in Federal aid, inflation, and high interest rates resulting in plant closures, unemployment and human suffering. Supply-side economics is creating an increased need for social services at the very time they are being cut by both the State and Federal governments. Military spending is inflationary, it creates less jobs per dollar spent and is robbing programs for people's needs.

"Is the State's fiscal crisis linked to military spending? Well, the cost of a single Trident submarine—about 1.5 billion—would have prevented the need for budget cuts in the special session; would have eliminated the need for a raise in the State's sales tax; would have enabled the State to pay off the New York bankers in full and on time, and would have eliminated the $258 million "25th month headache." "Throw in the cost of the nuclear missiles and launchers for that Trident sub (another $500 million) and you could have preserved state employee jobs, raised their pay, and added a cost of living increase to welfare grants." (Excerpts from Friend's of Labor Today Newsletter.)

To add insult to injury, the State Legislature is imposing the most regressive taxes to make up the shortfall instead of plugging tax loopholes so that the corporations and the wealthy pay their fair share.

Lastly, Seattle Women Act For Peace feels there is a pressing need in this period of economic crisis for economic conversion of military production to civilian production. A 2 percent decrease in the Reagan military budget would provide the transfer of those funds, for instance, to the Department of Labor to establish an economic conversion and plant or base closing fund, which would distribute moneys to official State and local economic development and planning agencies. This would create a major impact on civilian-oriented productive activity. A program like this would provide a cushion for thousands of American workers employed by companies whose contracts with any Federal Agency are canceled, terminated, cut back or transferred to other areas. The loss of this 2 percent in the military budget would not effect the Pentagon's abilities to buy paper clips but that money is a literal life line for thousands of American workers. This money could be used for education, or for the elderly, disabled or handicapped. It could save hundreds of other social programs which are being sacrificed to feed the growing greed of the military budget. It is time to turn the priorities of this country around, for a people well fed, well clothed and working at productive jobs is what real national security is all about.

STATEMENT OF MARY C. ROWLAND, EXECUTIVE DIRECTOR, WASHINGTON STATE DAIRY COUNCIL

I am Mary Rowland, Registered Dietitian and Executive Director for the Washington State Dairy Council. To provide some background information, the Washington State Dairy Council is a non-profit nutrition education organization which has been sponsoring nutrition research, education and communication programs since its founding in 1934. Our professional staff consists of 6 registered dietitians who conduct nutrition programs in Washington and Alaska. The Dairy Council nutrition philosophy is to encourage the consumption of a variety of foods to meet the recommended intake of nutrients as established by the Food and Nutrition Board, National Academy of Sciences/National Research Council, at an energy intake consistent with optimal health.

Recent federal budget cuts mandated by Congress (the Omnibus Reconciliation Act of 1981, Public Law 97-35) drastically reduced federal funds available for USDA's child nutrition programs. One recent example of a step toward such cost-cutting is a regulation proposed by USDA on September 4, 1981 (1) which would change meal requirements in three of the child nutrition programs. Although officially withdrawn on October 2, 1981, but expected to be re-issued in the near future, these USDA initiatives raise a number of serious nutritional concerns.

It is our firm belief that cost-cutting measures are being proposed at the expense of the nutritional integrity of the child nutrition programs. The child nutrition programs are nutrition programs. In order to be sure that federal funds are being used effectively and "to" safeguard the health and well-being of children, the foremost priority of these programs should be to maintain high nutritional quality of meals served.

The Washington State Dairy Council is intensely concerned that changes in school feeding program regulations having to be made by USDA have a negative effect on the nutritional integrity of these programs. Changes currently under consideration by USDA, if implemented, would impair the nutritional value of school meals—at a time when the need for improved nutritional value of school meals is apparent (2).

The original intent of the National School Lunch Program (NSLP), as stated in the 1946 School Lunch Act, was and is "to safeguard the health and well-being of the Nation's children and to encourage the domestic consumption of nutritious agricultural commodities."

The child nutrition provisions of the Omnibus Reconciliation Act of 1981 (Public Law 97-35, Section 818) had the goal of achieving cost savings at the local level in the operation of the child nutrition programs. However, this legislation did not change the original intent of the school lunch program. This law specifies that cost-cutting changes in regulations pertaining to meal programs under the National

School Lunch Act and the Child Nutrition Act of 1966 should be made "without impairing the nutritional value of such meals."

Some of the changes in school meal patterns that are proposed do not have a sound nutritional basis. In addition, these changes establish a precedent which could result in futher deterioration of the nutritional integrity of school feeding programs. Specifically, the following changes under consideration by USDA are of major concern to the Washington State Dairy Council:

Elimination of the nutritional goal that lunches served under NSLP provide one-third of the Recommended Dietary Allowances (RDA) (3),

Overall reduction in the amounts of the four meal components required in meal patterns under the three programs, and specifically, the reduction in the amounts of milk required in meals for preschool and elementary school children, and

Use of yogurt in lieu of milk to meet the milk requirement in meals served in these programs.

In addition, we also are concerned about the impact of the following on the nutritional integrity of the child nutrition programs:

Possible revision in USDA's competitive foods regulations (4),
Use of alternate foods, and
The interpretation of the offer versus serve concept by USDA.

Elimination of the nutritional goal that lunches served under NSLP provide one-third of the RDA opens the door for the deterioration of the nutritional value of school lunch.

A number of surveys provide data to support the appropriateness of the current school lunch nutritional goal. USDA's Nationwide Food Consumption Survey 1977–78 (5) revealed that lunches provided about one-third of the daily intakes of energy and most nutrients for school-aged children. Two studies, a USDA study (6) and the Ten-State Nutrition Survey (7) showed that school lunches contributed, on the average, 28 to 47 percent and 21 to 47 percent, respectively, of the daily intakes of various nutrients and energy. A more recent USDA study (8) emphasized the particularly important contribution of school lunches to nutrient intakes of children from low-income families. According to this study, school lunches provided 34 to 49 percent, on the average, of the daily intakes of energy and the 12 nutrients studied. Furthermore, on days when students participated in the NSLP, the lunches provided at least one-third of the RDA for protein, calcium, magnesium, phosphorus, vitamin A, thiamin, riboflavin, niacin, vitamin B12, and ascorbic acid.

Thus, the NSLP's current nutritional goal has a sound basis and has resulted in school lunches making a significant contribution to the nutrient intake of children. If this goal is eliminated, meal patterns will not necessarily be based on scientific nutritional evidence, meals will vary widely in their nutritional quality, and the overall nutritional integrity of the entire program will be significantly weakened.

The USDA proposed goal that "lunches served under the proposed lunch pattern can continue to make a significant contribution to children's known dietary needs permits a multitude of interpretations as to what constitutes "a significant contribution" and what are "children's known dietary needs." For example, who will define these terms in the future if a nutritional goal and meal patterns to support that goal are not set forth in the regulations? If the Secretary of Agriculture, individual states, or individual school food authorities define that term arbitrarily, or if the term is left undefined, how will the nutritional adequacy of lunches served under the NSLP be consistently ensured throughout the United States?

Preservation of the stated nutritional goal for school lunches does not preclude flexibility in meal patterns under the NSLP. Elimination of the nutritional goal that lunches served under the NSLP shall provide one-third of the RDA, on the other hand, almost guarantees impairment of the nutritional value of school lunches.

Therefore, the Washington State Dairy Council strongly recommends maintaining the current nutritional goal of one-third of the RDA for lunches served under the NSLP, along with appropriate meal patterns specifying the kinds and amounts of foods to be included in school lunch, in order to assure maximum nutritional integrity and cost effectiveness.

Overall reduction in the amounts of the four meal components required in meal patterns under NSLP, (SBP) School Breakfast Program and (CCFP) Child Care Food Program, is the second area of concern with regard to USDA's proposed regulation. The proposed reductions in required amounts of each of the four meal pattern components—meat/meat alternate, vegetable/fruit, bread/bread alternate, and milk—for certain age groups represent a significant decrease in the amounts of food required to be served to children and a subsequent decrease in the nutritional value of these meals. The nutritional value of a meal is based upon not only the nutritional quality of foods served but also the quantity of food served. Reducing the required amounts of the four meal components served under the NSLP, SBP, and CCFP will impair the nutritional value of the meals and is not consistent with either the original intent of the NSLP or Public Lae 97-35.

A survey conducted by USDA (5) revealed that intakes of iron, magnesium, vitamin B6, and calcium were below the RDA for various age-sex gropus of children. The food quantity reductions USDA is proposing would further exacerbate the problem of low intakes of these nutrients among children. For example, about 60 to 75 percent of children's daily iron intake comes from meat, poultry, fish, eggs, and grain products (5). Children's intakes of iron already are below the RDA, yet the proposal calls for decreasing the amounts of those iron-rich foods required in school meal patterns. Likewise, of all the components of the school lunch meal pattern, milk is depended upon as the primary source of calcium. Milk also contributes significantly to the magnesium and vitamin B6 intake of children. In spite of these important nutritional contributions milk makes to the diet of children, USDA is proposing to reduce the required amount of fluid milks in the meal patterns for children of certain age groups.

One-third of the RDA for calcium is 267 mg for one to 10 year olds and 400 mg for 11 to 18 year olds. With milk intakes of only four to six ounces in meals served in NSLP, SBP, and CCFP, it will be difficult for a child to get the recommended amount of dietary calcium. Very careful menu planning will be necessary to include foods in the child's diet that are excellent sources of calcium, contain calcium in a highly bioavailable form, and are well liked by children. On the other hand, eight ounces of milk will provide approximately one-third of the RDA for calcium for children one to 10 years of age. And it would require 11 ounces of milk to provide one-third of the RDA for calcium for children 11-17 years of age. (See addendum.)

Washington State Dairy Council strongly recommends that USDA follow the congressional mandate in Public Law 97-35 that cost saving measures should not impair the nutritional value of meals in NSLP, SBP, and CCFP. If the nutritional integrity of the programs is to be maintained, the quantities of foods required in meals should not be reduced. Specifically with regard to milk, the fluid milk rquirements in breakfasts, lunches, and suppers under these programs should be at least 8 ounces for all ages/grade groups of children in order to help meet the recommended dietary allowances for calcium for those children.

USDA's intent to relinquish federal authority over the sale and serving of foods of minimal nutritional value, in competition with school meals, is another major concern.

The sale of foods of minimal nutritional value (soda water, water ices, chewing gum, and certain candies) in competition with lunches served under the NSLP may result in nutrtitional compromise for children consuming low nutrient density competitive foods in lieu of school lunches, may well cause decreases in NSLP participation, and runs counter to nutrition education efforts.

Further, when foods of minimal nutritional value are served with school lunches provided under the "offer versus serve" option, students may choose the competitive food over a more nutrient-dense food which is a component of the school lunch. The consumption of foods of minimal nutritional value in place of one or more of the five school lunch meal components greatly under mines the overall goal of the NSLP of providing nutritious lunches and encouraging the formation of sound eating habits among children.

The "offer versus serve" provision, as it is interpreted by USDA, is another great concern to Dairy Council because this provision precludes achieving the nutritional goal of one-third of the RDA for children. This congressional mandate provided that students not be required to accept offered foods which they do not intend to consume. Schools must offer all five meal components—milk, meat, bread, and two fruits and/or vegetables—but students may choose only three or four depending on age, of the five components and still have a lunch that is federally reimbursable.

The impact of the "offer versus serve" regulations on the nutritional integrity of school meals can only be negative. The five-component meal patern for school lunches was based on the four food groups concept and developed as a guide which would help school food service managers provide lunches which, on the average, supply one-third of the RDA for children—the existing nutritional goal of the NSLP. It is highly unlikely that school lunches will meet this goal, over time, if students consume less than the full five-component lunch, particularly if the foods not chosen are those which supply nutrients that children tend to consume at less than the recommended levels.

Although the "offer versus serve" provision was intended to reduce plate waste in the NSLP and may increase flexibility and lower costs for school food service operations, the Dairy Council contends that allowing students to consume less than a complete school lunch is a very undersirable way to decrease food waste and achieve a more efficient school food operation. The NSLP is, after all, a nutrition program, the intent of which was to safeguard the health and well-being of all children. Subsidizing incomplete lunches of varying and questionable nutritional value compromises the NSLP nutritionally and thereby does not support the original intent of the program.

The Washington State Dairy Council recommends that USDA replace the current "offer versus serve" regulations with an alternative approach which would address the problem of food waste without compromising the nutritional integrity of the programs. Food waste should be minimized through offering foods of sufficient variety and quality to appeal to children, through nutrition education efforts, and/or through other innovative approaches.

In conclusion, Washington State Dairy Council urges members of this subcommittee to ensure that the original intent of the NSLP is upheld and that cost-cutting changes in regulations pertaining to the NSLP, SBP, and CCFP be made without impacting the nutritional integrity of meals served under these programs.

Thank you very much for the opportunity to come before this subcommittee today to express the nutritional concerns and recommendations of the Washinton State Dairy Council about the school feeding programs.

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ADDENDUM

TABLE A.—PERCENT OF THE RECOMMENDED DIETARY ALLOWANCES (RDA) FOR CALCIUM CONTRIBUTED BY THE USDA PROPOSED SERVING SIZES FOR MILK

Age	Proposed serving [1]	Calcium content [2]	Calcium RDA (mg)	Percent of calcium RDA met	
				By USDA [2]	By 8 oz milk
1 to 4	4	146	800	18	36
5 to 11	6	218	[3] 800	27	36
			[4] 1,200	18	24
12 to 17	8	291	1,200	24	24

[1] Size for milk (ounces).
[2] Proposed serving size (milligrams).
[3] 5 to 10 yr.
[4] 11 yr.

Source: Food and Nutrition Board, National Research Council. Recommended Dietary Allowances, 9th ed. Washington, D.C.: National Academy of Sciences, 1980.

WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREEDOM,

Seattle, Wash., January 19, 1982.

We are here today to testify regarding the effects of the policies adopted by the 97th Congress. We also wish to express real concern about further cuts in human services which the Administration is reputed to have in store for us.

Fundamental changes are taking place in the policies of our nation under this "Trojan Horse", supply-side-economics. A tax cut of nearly $750 billion over the next five years is combined with a revolutionary budget that has combined massive increases in defense spending with equally massive cuts in social programs.

All of the states, with the exception of those half-a-dozen rich in oil and coal, are reaping the bitter consequences. Here in Washington, the budget cuts are inflicting substantial human suffering, while at the same time the recession is reducing state revenues and increasing unemployment and public assistance needs. Washington is facing a deficit of $309 million, while the Federal deficit will reach a staggering $80 billion this year. This financial situation must be rectified.

Women's International League for Peace and Freedom, strongly advocates for the reduction of the tax bonanzas corporations and wealthy individuals are enjoying, and for cutting the military budget substantially. We have just launched a "Jobs with Peace" initiative campaign. Many community groups and individuals have pledged support and will be helping us with this public education/political effort. This initiative will appear on the ballot in November and reads as follows:

"Shall the City Council call upon the U.S. Congress to make more federal funds available for local jobs in vital services—housing, health care, education, public transportation, public safety—by reducing the billions of our tax dollars wasted on nuclear weapons systems and programs of foreign military intervention."

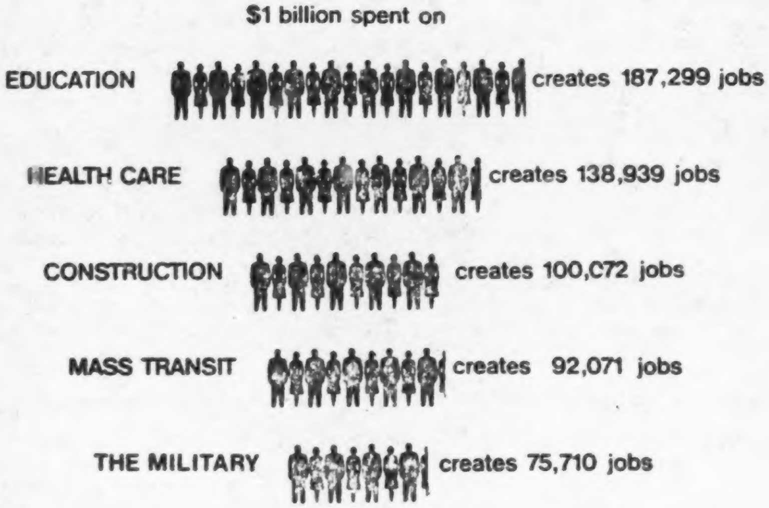
Thus, you can expect to hear from the Seattle City Council next Fall. We are adding our voices to the growing number of communities which are petitioning you, our elected officials, with these vital concerns.

Thank you for coming to Seattle to hear directly from the people.

In peace,

NANCY HANOWELL,
Legislative Committee.

MILITARY SPENDING COSTS JOBS



(Figures from the Bureau of Labor Statistics, *Structure of the U.S. Economy in 1980 and 1985*.)

There is a common myth that military spending is a good jobs producer. Just the opposite is true. Military spending produces fewer jobs, dollar for dollar, than most other sectors of the economy. This is due in part to the highly automated nature of military production.

Increased military spending actually takes jobs out of the economy through what is known as the opportunity cost. In other words, resources used for military production are lost opportunities in such civilian areas as solar energy development, mass transit and housing construction.

A study commissioned by the Machinists Union (IAMAW) concluded that as military spending increases, machinists jobs are lost both in the civilian and military sectors of the economy. It is no wonder, then, that the union, despite having a large percentage of its membership employed in military industry, favors a decrease in arms spending. It proposes, instead, a greater investment of resources in civilian production.

"Every gun that is made, every warship launched, every rocket fired signifies in the final sense a theft from those who hunger and are not fed, those who are cold and are not clothed."

Dwight D. Eisenhower, 16 April 1953

* * * * * * *

The Jobs with Peace Initiative Campaign (City Initiative #27) is an effort to encourage Seattleites to call upon Congress to invest money and resources in basic human needs and civilian goods rather than in nuclear weaponry and military intervention. For more information about the Jobs with Peace Initiative Campaign, and what you can do, please call 206/623-5097 or 206/632-7701.

Labor Donated

STATEMENT OF DEAN A. WORCESTER, JR., DEPARTMENT OF ECONOMICS, UNIVERSITY OF WASHINGTON

SUMMARY

I believe that the welfare reform presently being put into effect is essentially that described by Martin Anderson in his book, Welfare: The Political Economy of Welfare Reform in the United States, a program I find inconsistent with the broader, highly desirable goals of the Reagan administration. It is inconsistent because the reform's success calls for a grand expansion of arbitrary, intrusive administrative judgments made by low level case workers working out of thousands of local offices. Anderson would hold down budgetary costs by simply cutting off benefits to those whom a social worker decides should be able to support themselves.

The thrust of the Reagan administration is in the opposite direction; to reduce administrative intrusion, to use financial incentives more. Anderson explicitly rejects attempts to induce work with financial incentives, such as those proposed by Milton Friedman and many others because they yield some benefits to people above the poverty lines, and for that reason impose high budgetary costs on taxpayers. In his view they deservedly lack popular support.

A welfare program consistent with the basic thrust of the President's program would take quite a different turn. Seemingly far more expensive, it would in fact have negative real costs because it would increase efficiency. I sketch such a program in the main body of my brief remarks.

A LITTLE PERSPECTIVE: WELFARE AND EFFICIENCY IN THE UNITED STATES AND EUROPE

Welfare and social insurance has been one of the great "growth industries" in the United States since 1965. At the same time growth in per capita income has been disappointing. Consequently, the former is thought to be the cause of the latter, and the desired higher growth used to justify reduced transfers. But does this asserted cause and effect relationship in fact exist? European experience suggests, if anything, the opposite relationship: a positive relationship between growth and social welfare and insurance expenditures carried to levels far in excess of those attained in the United States. A few data from Theodore and Frances Geiger, "Welfare and Efficiency," National Planning Association, 1978, summarize the story. Six nations have caught up and surpassed the United States in income per capita while increasing total public expenditures faster than the United States, starting from a higher base.

TABLE 1.—WELFARE, TAX BURDEN AND GROWTH: UNITED STATES, DENMARK, NETHERLANDS, WEST GERMANY, SWEDEN, NORWAY, UNITED KINGDOM

Nation[1]	GNP per capita, 1979 dollars	Total public expenditure, percent GNP[2]		Tax burden percent,[3] 1976	Marginal tax burden,[3] 1976
		1965	1977		
Sweden[4]	11,930	35	62	35	63
Denmark[4]	11,900	31	46	33	55
Germany	11,730	37	47	27	34
Norway	10,700	34	51	27	42
Netherlands	10,230	38	55	31	42
United Kingdom	6,320	37	44	26	41
Average	10,468	35	51	30	46
United States	10,632	27	33	17	32

[1] In order of per capita GNP. Switzerland is highest ($13,920) followed by Sweden. Belgium also ranks above the United States, and France, Canada, Australia, Japan, Austria, and Finland rank above the United Kingdom.

[2] Except for Sweden, the growth of public expenditures as a percent of GNP seems to have peaked in 1975. The 1977 figure is lower for Germany, the United Kingdom, and the United States, the same for Denmark, and the Netherlands, and only modestly higher for Norway. In contrast, United Kingdom showed a 12-percent decline, and Sweden a 19 percent increase.

[3] Central and local income taxes and social security contributions as a percent of the gross earnings of the average worker in manufacturing industry.

[4] These nations are tentatively identified by the Geigers as having carried welfare expenditure too far; to have begun to sacrifice efficiency.

Investigation of growth rates reinforces the impression given by Table 1. (See Table 2). To repeat, the nations that presently produce higher income per capita than the USA have grown faster than the USA at the same time that the proportion of their public expenditures grew faster than in the USA, starting from a percentage comparable to that attained here only in 1975.

TABLE 2.—*European and American growth rates—Average annual growth rate 1960–79*

Nation:	
Sweden	2.4
Denmark	3.4
Germany, Federal Republic	3.3
Norway	3.5
Netherlands	3.4
United Kingdom	2.2
Average of these	3.0
Average of industrial market economies	4.0
United States	2.4

Source: World Development Report 1981, p. 135.

It is hard to find any support for the idea that slow USA growth rates are a consequence of unduly high government expenditures or too-heavy tax burdens on working people. The reasons lie elsewhere. The European record implies, I think correctly, that substantially higher budgetary costs for improved social insurance and welfare programs will not hurt, and may significantly improve the economic performance of the United States.

TRILEMMA: THE TROUBLES WITH WELFARE REFORM

Experts, frustrated by the experience of President Johnson's Great Society and successor schemes tend to agree that there is no way to simultaneously provide an adequate level of benefits, hold tax costs to acceptable levels and avoid strong incentives to loaf. For them, policy making is a choice among these three. Some, like Milton Friedman, choose modest impalement on two horns of the trilemma: minimal benefits and a modest (by these standards) 50 percent benefit reduction, "tax rate" on earnings in order to moderate the cost to taxpayers. As far as I know, every expert including Milton Friedman and Martin Anderson would have the federal government provide a minimum income for those unable to provide it for themselves. They disagree on the level, and many other things, but not the principle. This reduces the trilemma to a dilemma: how to provide motivation to work while keeping the cost to taxpayers low enough to be acceptable.

Martin Anderson describes the problem colorfully and accurately as a "poverty wall". A person who works finds his benefits reduced, sometimes making a person poorer when he works than when a welfare recipient. This "tax" on working can have serious long run effects if it reduces work experience and growth of skills and ambition. Benefit reductions often exceed 50 percent at times exceed 100 percent when, for example, an additional dollar of earnings makes a person ineligible for subsidized housing, daycare, or "free" medical care. The present system combines the worst of both worlds. It penalizes work and raises costs to taxpayers by giving benefits to many people who are earning enough to rise above the poverty line. This condition has pushed Anderson to an extreme "remedy".

MARTIN ANDERSON'S SOLUTION

Anderson would demolish the poverty wall by administrative fiat. Determinations made at the local level would separate potential beneficiaries into one of two categories; those "capable" and those "incapable of self-support", although "If he can earn part of what he needs, then he has an obligation to work to that extent." This avoids "financial incentives", which Anderson judges "faulty in principle", by imposing a 100 percent tax on earnings. (All quotes in this and the next paragraph are from Welfare, pp. 162–3).

Quite clearly, "someone must judge whether or not the welfare recipient is capable of work", judgments that are unavoidably of a "personalized, people-orientated kind" . . . that "emphasizes both the authority and responsibility of local governments." In practice, this means the social worker who confronts actual and potential beneficiaries. Administrators will have important "favors" to distribute to millions of voters. This personalized approach to welfare is diametrically opposed to reliance on impersonal market forces and deregulation, presumably the primary orientation of the Reagan administration.

Difficulties are compounded by accepting the need for a system "matching in size and complexity the array of welfare programs we now have". (Welfare, p. 159) Anderson presents a list of 91 programs in his Appendix A. There are more. Many people qualify for several programs. The several administrators of the numerous programs will differ in categorizing prospective recipients as "capable" or "incapable", causing confusion and disarray. And it will be at least as worthwhile as it is now to know how to qualify for benefits, since, according to Anderson, those who do will receive more generous benefits than they do now.

The basic flaw with the current programs is their categorical nature, a flaw Anderson would retain. They unavoidably require hairline decisions on the margins of each category. They require close judgments which, because they are close are arbitrary, and, therefore, frequently overturned on appeal. Anderson's scheme to keep costs to taxpayer down by cutting from the rolls magnifies the importance of the categorical decision and by personalizing it in a myriad of local offices multiples the number of apparent and actual arbitrary decisions, and enlarges the basis for fraudulent and politically motivated distribution of public funds.

THE THIRD HORN OF THE TRILEMMA

The third horn of the trilemma, high apparent cost to the taxpayer, has been treated as a sacred cow, and not subjected to the searching skeptical appraisal accorded the other two. We have chosen to avoid the first horn. We will not abandon the poor. We will use the federal government to provide some level of minimum income. The provision of a minimum income is nothing new, here or abroad. See for example Stanley Lebergott's chapter on 100 years of minimum income in his book: The American Economy.

We have lived with the remaining dilemma, acute since the late 1960's, between costs to taxpayers and poverty wall disincentives to work. An uneasy and unsatisfying balance has prevailed between administrative categorizations, often successfully challenged, and attempts to induce voluntary socially desirable behavior by means of financial incentives: allowances for work expenses when calculating earnings; disregarding some income before beginning to reduce benefits, and less than 100 percent "taxes" on additional earnings; "free" daycare; subsidized training and employment. Cutting, or at least holding the line on taxes has gained top priority. This strengthens the hand of those who, like Anderson, would remove the poverty wall by political or administrative fiat. The resulting prospect, discussed in the preceding section, is forbidding indeed. It is past time to ask if higher costs to taxpayers is not the better choice.

The task is to construct a system that meets the 8 criteria summarized by one of the long-time leading characters in United States social welfare drama, Eveline M. Burns. (Social Welfare in the 1980's and Beyond, Berkeley, Institute of Governmental Studies, 1977, p. 13) The system should (1) put money in peoples' hands when they need it, (2) be predictable and dependable so that a person can budget expenditures, (3) assist the working poor, (4) not require detailed investigation of the recipient's personal circumstances, (5) not discourage initiative, (6) have the IRS treat recipients the same as other taxpayers, (7) offer no incentive for family breakup, (8) not involve heavy and unequally distributed burdens on state and local governments. I would add, (9) make sense to the electorate.

Dr. Burns' criteria virtually preclude significant catagorization of recipients into "capable" and "incapable" classes, and cannot allow benefits to be "taxed" any more heavily than the earnings of labor in the same income group. A radically conservative result emerges: every adult should receive a basic grant equal to the minimum income. At first glance the sums involved are daunting, even terrifying, for they require about a third of national income. But in actuality, we may already be transfering that amount in ways that lower national income. (See Leonard M. Greene, Free Enterprise Without Poverty, Norton, 1981, p. 126 and Appendix). Of course, the grant must be covered in full by taxes. If the taxes are proportional, the system as a whole will be progressive. The NET grant ranges from a positive amount for those who can, or won't, earn much, to almost 33 percent of income for those who do earn a lot. As percent of income the tax minus the grant might range from a negative infinity to a positive 33 percent of income.

Why should anyone favor such a system? Primarily because it provides a "safety net" without holes, and does so in a way that meets all of Dr. Burns' criteria of fairness, efficiency, support of family, and with a very minimum of expensive, intrusive arbitrary administration.

It is important that the tax or "personal security premium" chosen not discourage work. The ideal is a license type, or "front-loaded" tax, like a tax that on your house. Once paid, there is no tax at all on additional work. In economist's language, the marginal tax is zero. There are technical problems with such a tax which may tip the balance toward a value-added tax or an expenditure tax. Either way the incentive to work is increased for nearly all the potential labor force.

This approach has other attractive possibilities. Any person can option his grant to an employer or employment agency. There is no reason to fear exploitation of the worker, since at all times he can live on the grant, and any deal must be more satisfactory to the worker than that. If a person is incarcerated for any reason, the grant can go to defray part of the costs of the institution. Given time to phase it in, such a system promises to displace the income support aspects of nearly all the social insurance and welfare programs including in-kind transfers for regular expenditures, such as food, housing, and routine medical care.

TWO GENERAL COMMENTS

Popular and even expert discussion sometimes fails to distinguish between transfers and real costs, particularly with respect to the social security tax. That tax funds a "transfer" that pays in full for the benefits received by other citizens, and at the same time provides the taxpayer with a claim for support for him and/or his family should he become disabled, die, or, eventually, retire. It is a form of insurance. In my opinion the troubles with our social security system are currently grossly exaggerated. Politically awkward, but economically modest, even trivial adjustments suffice to make it "sound" at least 50 years into the future. Social security, unemployment compensation, workmans compensation, and the like are transfers.

Other taxes allow government to buy things in competition with the citizens generally. They have indirect benefits, but the steel and aluminum that goes into tanks and aircraft are not available for cars and saucepans. From the point of view of the consumer-taxpayer they are real costs; reductions from what they can spend as they please, with no compensating claim in the event of disability, death, or unemployment. Real costs are often analagous to investment; money spent for roads lowers the cost of most products by lowering transportation costs, money spent for defense lowers the risk of loss to plunder and uncertainty should a conqueror abrogate existing ownership and contractual rights by imposing a new political and economic system. Money spent for education is expected to increase the productivity of the next generation.

Transfers can provide the security needed to lubricate quick adjustments to changing opportunities. Otherwise the changes are too threatening, and will be more strongly resisted, and growth slowed. Federally funded transfers are more efficient because opportunities can cause serious transition problems for whole states, and because personal mobility has weakened the ability of the extended family to support its members.

A final point: this type of radically conservative transfer system should significantly help control inflation. It is agreed, I think, that the inflation that presently infects the western world is primarily due to attempts to force the unemployment statistic to low levels, and to enhance growth by maintaining a strong demand for goods. No level of unemployment, as officially measured could be defended as low enough, and over the years responses to social insurance, to automated houses, and the ambition of well-educated women produced a rising participation in the labor market by people less in need of continuous employment. Thus inflation followed efforts to force the unemployment index to unrealisticly low levels.

We associated gradually rising minimum rising unemployment with real deprivation. A minumum income system provides assurance against real deprivation. In doing so it frees monetary and fiscal policy to focus on stabilization of the price level. But does it? Suppose the minumum income level is set too high; will not there be too little work, and too little production? Perhaps, but this outcome can be guarded against by setting the minumum income level at some fixed percentage of the average income of the previous year—as is presently done for maximums for unemployment insurance in some states. Then should too little be produced, there will be increased incentive to work next year.

CONCLUSION

There is, or has been, a trilemma confronting those trying to work out an effective social insurance and transfer system. Over the years all advanced nations, the United States included, came to be committed, de facto, to the government provision of a minumum income to all in need. That left a frustrating dilemma between cost to taxpayers and built-in incentives to shirk that ran against popular morality and the need for constructive cooperation by all able to work. The furstrations escalated to a point where one of President Reagan's principal advisors advances an administratively intrusive program to hold down or reduce taxes which otherwise is diametrically opposed to the main thrust of the President's program. The tactics of this program is inconsistent with the strategy of the President's program as a whole.

The alternative deserves scrutiny. The feared cost to taxpayers is a transfer, not a real cost. The experience of other advanced nations, which have performed better than the United States, strongly suggests that our problems do not lie in the size of our transfer payments. Better to accept the apparently high, but fruitful, costs of funding an adequate transfer, and avoid Anderson's adminiistrative "solution". All eight of Eveline Burn's criteria are possible. The task of the politician is to make the means understandable to the electorate.

FLORIDA LUTHERAN COUNCIL ON SOCIAL MINISTRY,
Tampa, Fla., November 30, 1981.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, Washington, D.C.

DEAR MR. SALMON: Regarding the field hearings on social program cuts, I would like to address the three subjects as released Friday, November 20, 1981.

1. Regarding the lives and well being of individuals and work incentives: I would refer specifically to the CETA Program and deplore the fact that we are shifting from job training programs and increasing unemployment and therefore, increasing welfare needs. This is the reverse of a trend that has recognized the best of both political philosophies in this land namely, taking people off welfare and putting them to work.

2. Regarding the stability and adequacy of programs established by Congress over the years: It is clear that these programs have been established not only "over the years by Congress" but are a part of a general process in western civilization since the Middle Ages. What was at one time the volunteer programs of the church sector gradually throughout Western History have become the responsibility of Welfare State. It seems to me that the present aberation in policy is one that will certainly be corrected in history and is not therefore, appropriate as a major disruption, even temporary, in developments that are far beyond the scope of even our State program.

3. Writing from a state like Florida, it is clear that the capacity of State and local governments to fund or manage appropriate service program is not very strong. The "new federalism" is not philosophically reprehensible, but is practically undesirable because of the uneven handling of these programs by some states. The basic argument for a strong federal hand in Civil Rights and human services is simply because some states are not adequate to the task.

If the decisions on a philosophical level are subsumed under the issues related to human values, it is clear the persons in Florida will be much better served by a federal distribution system.

Sincerely,

DELMAR GUSDAL, *Executive Director.*

GOOD NEIGHBOR HOME,
Manchester, Iowa, December 1, 1981.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, Washington, D.C.

DEAR MR. SALMON: I am concerned about the welfare programs that are being affected by the President's budget cutbacks.

I feel that much needs to be done about the waste and fraud in these programs, but I fail to see the wisdom of taking away help from those that deserve help. How can we justify helping the needy in the past and now forget the needy of the present and the future?

Being a nursing home administrator I am concerned about the medicaid program. Most nursing homes, caring for Medicaid residents, have as many as half of their residents in this program. To reduce this program would create hardships on nursing homes and the aged people. Here again is a case when we need to look at the past program and ask, "Can we forget those of the present and the future?"

When we plan cutbacks we are often stepping out of the frying pan into the fire. Let's not forget the needy who deserve to be helped.

Sincerely,

Rev. **Paul C. Wenske**,
Administrator.

Human Rights Organization of Arizona, Inc.,
Scottsdale, Ariz., January 28, 1982.

John J. Salmon,
Chief Counsel, Committee on Ways and Means, Washington, D.C.

Dear Mr. Salmon: We appreciate the opportunities the Committee has afforded for public comments about the impact of the Administration's budget cuts, and regret that it was not possible for our organization to appear to testify in person. We trust that it is not too late to accept our comments on two of the three primary areas specified in the press release about the hearings, and your acceptance of comments.

It might be of value for you to know that we are a totally volunteer organization, incorporated as a non-profit organization whose purposes include bringing together "all levels of the community in efforts to identify, make visible and effect change in regard to the problems of low-income people." Having always had a Board composed of a cross-section of the community, we have participated very actively over the years in efforts to involve the public in factual discussion of issues so that a more informed resolution may be possible.

Undoubtedly, many pages could be written in efforts to address the concerns for which you are holding the hearings. We would attempt to comment briefly on two of them from our perspective.

The lives and well-being of individuals, especially those least able to juggle survival needs, have been sacrificed by the Administration in the actual and proposed budget cuts. We believe our nation has made real progress over the years as it has worked toward providing a basic minimum of assistance to those in need—until now. The Administration appears to us to have turned back from our commitment to a more humane society. In its niggardly approach to the needs of the poor and those on fixed income, and in targeting cuts toward many of those least able to accommodate any further reductions, the Administration shows itself to be looking out for the interests of the "truly greedly".

Although lip service is given to undergirding the "old virtues" of family support and local philanthrophy, the Administration's policies often penalize the low income family who attempts to help a family member or a neighbor. For example, if an individual becomes ill or loses a job, the loss of income may preclude independent living. Relatives who may open their home to him (or friends) will find that the total income of the household will be computed to determine if he is entitled to Food Stamps. Rather than encouraging local support systems, this Administration seems determined to tear down the very fabric of help. In this example, were the players to act out of "enlightened self interest", they would turn out the poor person—who would then be entitled to more support from the public fisc than if shelter were provided in another home.

The virtual elimination of CETA positions, high unemployment rates, the shutdown of many employment offices, cutbacks in benefits to unemployed persons, reduction in housing subsidies, and an entire host of programs and services important to those who have not inherited department stores or gotten residuals from old movies—all these have brought harsh times to the low-income people of our land. This domino effect has all but flattened the poor person upon whom the budget-cutting has fallen with a vengeance.

In this wealthy country, where we collect and spend a smaller portion of our wealth in taxes for public purposes than does any European democracy, the Administration has excused its meanness by saying it must curb "runaway government spending and unbearable tax burdens." The runaway government spending has *not* been in areas of human need. Uncontrolled spending has occurred in proposals for military spending—a 112% increase for 1986 over 1981. Almost all social programs have been cut in actual dollars, or their budgets have not been increased to reflect inflation. Piling up a collection of small cuts in social programs—eliminating the total funding, for example, for legal services of $340 million—still pales in comparison to the $34 billion being committed for the first firing of the MX.

The capacity of state and local governments to fiscally and administratively manage the "new federalism" is far from proven. As a matter of fact, there is considerable evidence to show that there is as much—if not more—fraud, waste and inefficiency in non-federal units of government than in Washington. The January 1982 issue of Washington Monthly, for example, is worth reading as the rhetoric soars regarding the glories of returning responsibility to officials closer to home.

We need think only of the experience of this organization in regard to two of the "block" grant programs: Revenue Sharing and title XX (Social Services) funds. In the former, our efforts to secure information about the point at which the public was to be involved in the considerations about use did not yield information until the governor and legislature had already decided which parcels of land, and which law enforcement paraphernalia, and which new buildings would get a share. When we questioned how the views of the citizens were to be involved, we were told that we could appear before the Appropriations Committee—the very last step in finalizing the budget, and a committee that, for years, had not permitted the public to attend their deliberations.

In Title XX planning, the procedure has been localized to a much greater extent, and pro forma opportunities are publicized for comment and review. However, there are many planners with much money going to hire and maintain an administrative staff whose familiarity with social services is typically limited if not nonexistent. Public hearings can easily be confused with popularity contests as each group seeks to secure as many supporters as possible to speak favorably on the particular service provider's sterling qualities. The final decision appears to be made in splendid isolation from any facts regarding the actual performance of the agency seeking the favored Title XX funds (insofar as it can be evaluated), or the interrelationship of various services. Administrative staff continues to be deemed essential, even as budget cuts and reduction of funds result in fewer direct service and support staff to meet the ever-increasing need.

Arizona is but one of several states which has responded to the so-called "taxpayers' revolt" by enacting limits on state expenditures. These are on top of previously-legislated caps on certain other components of government dependent upon tax funds at lower levels. Now, with federal funds abruptly lessened in a host of programs, and with a terrible economy which has produced less revenue and fewer jobs than even the most optimistic pessimist could predict, the State is in fiscal distress. There simply is insufficient revenue to compensate for the budget cuts proposed by the Administration and enacted by Congress. Private philanthropy has not emerged to compensate for the major cuts which are bleeding our country to death, nor has private enterprise offered even money for band aids.

In sum, then, we see a philosophy behind the budget cuts which would turn us back from the noble and sound attitudes of helping those most helpless in our society. We see with dismay the "remaking of America" as one which legitimizes indifference to the suffering of those whose best efforts have not been enough. We yet can be known as people of compassion, of individuals in a country seeking peace and justice, human rights and dignity. But there is no chance of that if the pattern of the Administration is followed, for it is one which would increase our death-dealing capacity even as we cut back on the life support of our own citizens.

We can and must do better than the Administration and Congress has done with the Omnibus Budget Reconciliation Act of 1981.

Sincerely,

J. L. Hyslop, *Chair.*

State of Idaho,
Department of Employment,
Boise, Idaho, November 30, 1981.

Mr. John J. Salmon,
Chief Counsel, Committee on Ways and Means, Washington, D.C.

Dear Mr. Salmon: Enclosed are copies of letters which have been sent to Idaho's congressional delegation relative to the impact of proposed budget cuts on Idaho's employment programs.

I hope this information will be useful to the Committee on Ways and means in assessing the impact of the Reagan Administration's budget cuts on the various public assistance and employment-related programs.

Sincerely,

Scott B. McDonald, *Director.*

OFFICE OF THE GOVERNOR,
Boise, Idaho, August 6, 1981.

Hon. JAMES A. MCCLURE,
U.S. Senate, Washington, D.C.

DEAR SENATOR MCCLURE: Presently, we are in the process of completing our CETA planning activities for fiscal year 1982 based on the planning allocation figures we have received from the Department of Labor. However, it is our understanding that the final program appropriations may not be made until late October or November. As the fiscal year begins October 1st, this will have a detrimental impact on our administrative and service delivery capabilities. At a time when current year funds have been reduced, limited funds will be carried forward to support activities if appropriations are not made in a timely fashion. The longer the appropriations are delayed, the chances for closing the program become greater. The added costs and inefficiency created by delayed funding is high although the impact will be felt most by the economically disadvantaged residents who are attempting to become self-sufficient through CETA training. We encourage you to work for earliest possible determination of the final CETA allocation figures.

Further, the Idaho Manpower Consortium utilizes its CETA Incentive Funds to support several subgrants with community based organizations and public agencies. These subgrants provide important employment and training services to high school dropouts, older workers, Hispanics, displaced homemakers, and the handicapped. As these programs are on-going, it is important that we receive planning and allocation information in a timely manner. The present Incentive subgrants are scheduled to end September 30 and we have yet to receive any information in regards to the Incentive allocations for fiscal year 1982.

In the past, the Department of Labor has released the Incentive allocations after we were well into our program year because allocations have been late. To avoid disruption of services and to allow sufficient planning, we request that you urge the Department of Labor to provide us planning estimates immediately for the fiscal year 1982 Incentive funds.

The people of Idaho are sure to thank you for your efforts.

Sincerely,

JOHN V. EVANS, *Governor.*

Ada County Commissioners:

VERN EMERY, *Chairman.*
BILL GRATTON, *Commissioner.*
MARIE SCHRIENER, *Commissioner.*

STATE OF IDAHO,
DEPARTMENT OF EMPLOYMENT,
Boise, Idaho, November 3, 1981.

Hon. JAMES A. MCCLURE,
U.S. Senate, Washington, D.C.

DEAR SENATOR MCCLURE: In response to President Reagan's proposal for an additional 12 percent cut to social programs, I would like to provide you with some information that will help you analyze the impact of such reductions.

The first round of cuts resulted in a reduction of 151 full-time equivalent positions in the Idaho Department of Employment (Job Service). This amounted to a 23-position cut in the Employment Service Program, a 67-position cut in the Unemployment Insurance Program, a 40-position cut in the CETA Program and a 21-position cut in Administration Supportive Services. This 151-position cut was achieved over a period of seven months by not replacing staff members who retired or resigned, through lateral transfers or voluntary demotions within the Agency and by retraining individuals who occupied positions that were being cut out.

Due to the distribution of the population in Idaho, 27 local offices have been established over the years to serve workers and employers in the state. Through careful organizational changes, we have succeeded in keeping a high quality of services available in 26 of these locations—the offices in Nampa and Caldwell have been merged due to funding cuts. As we consider the possibility of further cuts, we see no way to avoid rather extensive service-delivery reductions, reductions which will seriously impact the "core" services of the Department of Employment, since the Agency has already eliminated 151 positions.

We have made a review of some key areas that could be impacted by further cuts and some likely consequences of these impacts. It is hoped that this information can be useful to you as you consider the complex questions of cost savings versus service reductions.

A further 12 percent cut in the fiscal year 1982 budget will require the closing of at least 9 more of the 26 remaining Job Service local offices. Approximately 28,000 persons came to these offices in 1981 for services. If this same number were to drive to other offices during fiscal year 1982 for service, they would have to drive an average of 80 additional miles round trip (some well over 100 miles). If they were to make just two trips during the year, the additional cost to them would be $450,000 or more. There would also be additional time costs for each individual and they would likely encounter a lower service level at the remaining offices because they would have had their staff reduced in relation to the number of persons they would be expected to serve.

During fiscal year 1981, the Unemployment Insurance fraud prevention, detection, and prosecution program recovered $372,600 in unemployment insurance benefits from claimants who were not legally entitled to receive them. If this effort is reduced 12 percent, it would save about $27,500 in staff costs, but would reduce substantially the amount of overpayments detected and recovered. The deterrent effect of our benefit fraud prosecution program would also be lessened as fewer cases would be prosecuted. Research has shown that a strong fraud prevention program, such as the Agency has, also saves about two dollars from being fraudulently drawn for each dollar actually recovered. This will amount to at least $750,000 this fiscal year. If this effort is reduced 12 percent, it will save about $27,500 in staff costs but will increase the drain on the Idaho Unemployment Insurance Trust Fund.

In the Unemployment Insurance Tax Collection area, about 3,800 new employer accounts are received each year. Many of these accounts have to be "found". During fiscal year 1981, about $1,253,000 in taxes was collected from these new employers. Employer tax audits will produce another $254,000 from the discovery of accounting and interpretation errors made by employers. If this effort is reduced by 12 percent, the staff savings will amount to about $99,000 while the revenue losses will be in excess of $1,507,000. Additionally, with the economy in a recession and with fourteen states already borrowing money from the government because their trust funds are not solvent, now is not the time to be cutting back on the unemployment insurance tax collection function.

In the payment of Unemployment Insurance benefits, a 12 percent cut in U.I. staff would result in a substantial delay in the payment of U.I. benefits and an increase in the amount of waiting time it takes to file a claim. The time delay in payments and the increase in waiting time would increase by at least 12 percent.

At the present time, Idaho is making 94 percent of its first U.I. payments within 14 days from the date of the initial claim. The proposed 12 percent reduction would mean that about 83 percent of the first payments would be made within 14 days. The length of time required to make payments on continued claims would increase from an average of 5 days to an average of 6 days; which would result in the claimant receiving a benefit check the week after the week the claim was received. With the 12 percent cut, the average claimant would have to wait 4½ weeks to receive the first payment once an initial claim is filed. Once backlogs started developing the delays would become even longer; not to mention the problem of errors and performance quality that would result from inadequate staffing.

During fiscal year 1981 about 97,000 individuals came to Idaho Job Service offices for job finding help. During the same period, 10,248 employers placed 52,000 job openings. We have taken the 17 percent cut in Employment Service operations in a way that we hope will allow the Department to give service to about this same number in fiscal year 1982. An additional 12 percent cut will result in our serving approximately 8,000 fewer individual job seekers and about 9,000 fewer job openings. The attached table gives more details and shows other impacts.

Research by Stanford University has shown that Employment Security agencies are able to help shorten the length of unemployment for male job seekers by about one week and female by about three weeks. Thus the 3,172 reduction in individuals placed could amount to a loss of income to this group of well over $760,000, 3,172 weeks times $242, ($242 was the average weekly wage in Idaho in 1980). A 12 percent ES staff salary savings would amount to about $640,000, which would include the closing of nine offices.

The tax revenue losses to, and the additional unemployment benefits drawn on, the Idaho Unemployment Insurance Trust Fund described above are of particular importance from two standpoints. The first is the fact that individual employer tax rates are based upon the ratio of the Trust Fund balance to total covered wages paid by Idaho employers. These Unemployment Insurance changes could be large enough to cause a ratio change which under Idaho law could automatically trigger a tax increase. The second concern is that there are no plans to cut the Federal Unemployment Tax Act (FUTA) taxes along with the Employment Security administrative fund cuts. Thus, Idaho employers (as well as employers in all other states) could be facing severe cuts in worker recruitment and Unemployment Insurance program benefits without a corresponding cut in their federal unemployment taxes. They also face the prospect of state Unemployment Insurance taxes going up because of revenue losses to the Trust Fund and unemployment insurance benefits being paid due to increased fraud and claimants drawing benefits for a longer period of time because of reduced job-finding assistance.

It is my strong opinion that further cuts, especially in Unemployment Insurance program administration funds will not only not save money but will cost conscientious Idaho employers as many as six state dollars for every one federal dollar saved in administrative costs. These benefit costs will be even greater over a period of time because fraud will grow as it becomes easier to get away with it. Claimants will spend more time drawing benefits either because the Department is unable to help them get a job or is unable to test their work force attachment through offering them a referral to a job. Idaho has always prided itself on having one of the best run Employment Security programs in the United States. Further cuts will severely undermine the integrity of the unemployment insurance program.

The Employment Security system both in the State of Idaho and in the nation has more than fulfilled the purpose for which it was created. In 1974–75, it helped to keep a major recession from becoming a depression. At the outset of World War II it helped mobilize the manpower resources of the United States and was credited with being a major force in helping to win the war. These are just two dramatic accomplishments, there are many other accomplishments which in the overall have returned far more to the nation's Gross National Product than it has taken in costs. The future is going to be no less demanding of a viable Employment Security system. It needs to be there when needed!

I must hasten to add that no matter what the budget outcome, the staff of the Idaho Department of Employment is going to do its best to serve the job seekers and the employers of Idaho and to do the best job possible in the Unemployment Insurance program. I strongly believe that under a further cut situation, that for every $1 of savings to the administration of the program, it will cost over $10 to Idaho's U.I. Trust Fund. Since all states' Trust Funds are part of the Federal Unified Budget, your voting for the cuts will make it that much harder to balance the federal budget.

We appreciate your concern in these matters and if we can provide further information, we would welcome the opportunity.

Sincerely,

SCOTT B. MCDONALD, *Director.*

IMPACT OF THE PRESIDENT'S PROPOSED BUDGET REDUCTION ON IDAHO—ES GRANTS TO STATES ACTIVITY (FISCAL YEARS)

	1981	1982 plan of service original budget	1982 budget reduction proposal	Difference 1981 from budget reduction proposal
ES staff years worked	145.96	128.8	113.39	−32.6
Individuals placed	25,850	24,770	22,678	−3,172
Placement transactions	35,913	33,711	29,708	−6,205
Job openings	52,362	47,100	41,465	−10,897
Individuals counseled	6,375	3,800	3,345	−3,030
New applications and renewals	97,317	95,839	89,400	−7,917

IMPACT OF THE PRESIDENT'S PROPOSED BUDGET REDUCTION ON SERVICES TO SPECIAL APPLICANT GROUPS IN IDAHO (FISCAL YEARS)

	1981	1982 plan of service original budget	1982 budget reduction proposal	Difference 1981 from budget reduction proposal
Individuals placed:				
Youth	10,027	9,973	8,780	−1,247
Poor	4,844	4,800	4,223	−621

IMPACT OF THE PRESIDENT'S PROPOSED BUDGET REDUCTION ON SERVICES TO SPECIAL APPLICANT GROUPS IN IDAHO (FISCAL YEARS)—Continued

	1981	1982 plan of service original budget	1982 budget reduction proposal	Difference 1981 from budget reduction proposal
Individuals placed—Continued				
Handicapped	1,210	1,289	982	−228
Minority	2,577	2,500	2,267	−310
Veterans	4,445	4,639	4,082	−363
Claimants	4,527	5,669	4,988	+461
New applications and renewals:				
Youth	30,719	30,844	27,160	−3,559
Poor	11,573	10,000	8,860	−2,713
Handicapped	4,227	4,475	3,938	−289
Minority	6,896	6,068	5,340	−1,556
Veterans	15,322	15,707	14,500	−822
Individuals counseled:				
Youth	1,855	1,195	1,052	−803
Poor	1,854	1,613	1,419	−435
Handicapped	982	584	514	−468
Minority	428	370	327	−101
Veteran	1,633	1,504	1,324	−309

Lutheran Family and Social Service of Nebraska,
Omaha, Nebr., December 3, 1981.

Mr. John J. Salmon,
Chief Counsel, Committee on Ways and Means, Washington, D.C.

Dear Chief Counsel Salmon: I regret that I will be unable to attend scheduled hearings on Social Program budget cuts.

I do have some concerns and would appreciate your ear.

The need to reduce federal spending is clear. The Reagan Administration is to be applauded for the seemingly creative and courageous attack on waste

Please, please, expand the waste and fraud search to all branches of government. The poor and highly visible are often not very creative in their attempts to cheat.

Exposing the expert cheaters will take some of the pressure off society's victims, thus allowing the President to do what I am sure he would like to do, and that is allow a decent standard of living for all.

Cut the subsidies to me and my family, as well as the rest of the middle and upper income folk of America. I will cheerfully pay my equal share, if my less fortunate neighbor can have a chance.

Let's study methods of Church, State and Nation working together, I am confident we can be more creative.

Finally, Mr. Chief Counsel, let's see our poor as symptoms of an American disease. The poor are victims of progress, and are not the cause of American ills.

Thank you for your ear.

Cordially,

Curtis D. Anderson,
Executive Director.

St. Luke's Home,
Dickinson, N. Dak., November 30, 1981.

Mr. Richard W. Rhyne,
Director of Social Ministry, Lutheran Ministry, New York, N.Y.

Dear Mr. Rhyne: Your letter of November 25th indicated that we should write to Mr. John J. Salmon, Chief Counsel, Committee on Ways and Means. However it was indicated that it must only cover three pre-selected topics. I do not believe these are the only topics that should be addressed.

I am not in favor of any cuts in budget that will create a hardship on those who are in need.

I am in favor of President Reagan's attempt to bring our country back to earth. There are many ways in which this can be done without creating hardships.

The minimum wage and its companion the Mandatory Uniform Allowance has created havoc among many of our facilities. It has put many people on the welfare roles. It is one of the main reasons for the rapid gains in the cost of Health Care.

The current unemployment regulations keep people on the unemployment roles that should and could be working. It does not seem fair to our facilities that people we would like to hire can get more income from unemployment and welfare than we can pay them using the minimum wage as a base. There should be an incentive to work. It would appear that we have our priorities in the wrong area.

We recently had a good employee quit because if she kept on working it would increase her house payments. These differences are being made up out of tax dollars.

All of our local-county-state and federal office could reduce their staffs by 50 percent if our law makers would insist. Unnecessary and duplicate regulations would and should be eliminated. It might be political suicide for our government officials and what could be more important for them then to get re-elected.

We have inspection teams inspecting inspection teams. It would be most helpful if the inspection teams had experience in the fields that they are inspecting. They should know what they see when they see it. There are some very good inspectors, who use common sense, but they are not match for the person who only knows the book.

I don't believe that we should ever pay people for "NOT" doing "SOMETHING". Even the W.P.A. of the Depression years didn't do that.

I would be happy to discuss these problems with you at any time.

Sincerely,

R. J. MYRAND, *Administrator.*

LUTHERAN COUNCIL IN THE USA

MEMORANDUM

To: Lutheran Agencies, Homes, Institutions, Synod and District Social Ministry Staff and Bishops, DMM Standing Committee, Commission on Ministry with Disabled Persons, Selected Church Body Staff, LCUSA Field Staff Directors, LDDRB Board Members, LS/3.
From: Richard W. Rhyne, Director of Social Ministry.
Date: November 25, 1981.
RE: Field Hearings on Reagan Administration Social Program Cuts.

We have just received word that there are to be four field hearings being held in December and January to review and discuss the proposed social budget cuts. These field meetings are being held by the House Ways and Means Committee.

The voice of the religious community needs to be heard more now than ever and we're encouraging you to attend these meetings if at all possible. The church community has been invited to participate by the Ways and Means Committee, who is holding these meetings voluntarily. This group has authority over many truly imperative social programs.

The dates and locations of these four meetings are: December 7, 1981—Indianapolis, Ind.; December 8, 1981—Detroit, Mich.; January 18, 1982—Sacramento, Calif.; January 19, 1982—Seattle, Wash.

The locations and times for these meetings have not yet been released. As soon as the press releases are announced, we will notify you.

Please give every consideration to these meetings. You are a vital voice and need to be heard!

Another suggestion is for you to voice your comments to: John J. Salmon, Chief Counsel, Committee on Ways and Means, 1102 Longworth House Office Building, Washington, D.C. 20515.

You may address him on the following *three* topics: (1) Lives and well-being of individuals, (2) the stability and adequacy of programs established by the Congress over the years to sustain and enhance the lives of disadvantaged Americans, and (3) the capacity of state and local governments to fiscally and administratively manage, under the "new federalism" mandated by the President's budget cuts, the full range of programs that have now been thrust upon them.

You may wish to contact the office of your congressional members to the U.S. House of Representatives for more information on these meetings, especially time and location.

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